

# Accounting

Classes Nine-Ten



MINISTRY OF EDUCATION, GOVERNMENT OF BANGLADESH

Prescribed by the National Curriculum and Textbook Board  
as a textbook for classes eleven from the academic year-2013

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# Accounting

## Class XI-1st Year

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## Preface

The aim of secondary education is to make the learners fit for entry into higher education by broadening their horizons and preparing them in view of building the nation in the spirit of the Language Movement and the Liberation War. To make the learners skilled and competent citizens of the country based on the economic, social, cultural and environmental settings is also an important aim of secondary education.

The textbooks of secondary level have been revised and compiled according to the revised curriculum 2012 in accordance with the aims and objectives of National Education Policy 2010. Contents and presentation of the textbooks have been localized according to the social and economic values of Bangladeshi traditions and culture and the spirit of Liberation War 1971 ensuring equal dignity for all irrespective of race and creed of different religious and cast.

The present government is committed to ensure the successful implementation of Vision 2020. Honorable Prime Minister Government of the People's Republic of Bangladesh, Sheikh Hasina expressed her benevolence to make the country free from illiteracy and promoted the concerned authority to give her textbooks to every student of the country. National Curriculum and Textbook Board created a textbook committee from 2011 and since 2018 according to her instructions.

The textbook development has been developed for classes Nine-Ten in line with the new curriculum in the building philosophy in the philosophy of the twenty-first century including the content changes in textbook content itself.

Considering the challenges and circumstances of 21<sup>st</sup> century and following the national curriculum the textbook has been revised. Seriously theoretical education and rigid program has been avoided to make learners and users of the textbook. I hope the contents of the program will be utilized in the varied nations. We will continue our effort to make the next edition of the book more thoughtful, broad and free from any linguistic error.

I thank sincerely all the hard intellectual labor who were involved in the process of revision, writing, editing, art and design of the textbook.

**Prof. Nazimul Hossain Jahan**

Chairman

National Curriculum and Textbook Board, Bangladesh

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## Chapter One

# Introduction to Accounting

Economic events are visible in personal, institutional as well in every sphere of the society. The number of these events is many and diversified. Without the proper technique and its application, it is impossible to know the overall result and impact of these economic events. Various stakeholders both internal as well as external are keenly interested to know about the performance of economic. Therefore, accounting takes initiatives to record and analyse these transactions and report them to its stakeholders.



### Enrichment and Accounting

At the end of this chapter, we will be able to

- Understand the scope of accounting
- Describe the objectives of accounting
- Describe the necessity and importance of accounting
- Identify the history and evolution of accounting
- Identify the scope of accounting team
- Explain the roles of accounting in creating sense of value and accountability
- Be interested in keeping accounts in daily, personal, family as well as in institutional activities

## Concept of Accounting

Accounting is the process by studying which the various financial activities of a person or an institution, i.e. deposits and withdrawing amounts, purchase and sale of assets, buying and selling of goods, various financial returns and pay to creditors etc. are correctly recorded in different books of accounts and determining their actual result after a certain period. In accounting the economic transactions of a business are recorded, classified, and summarised. So, the financial position of a business can be ascertained which will lead towards taking proper decisions. The knowledge of accounting can be used to prepare different types of statements and reports to identify the financial condition of a firm. Therefore accounting is called the language of business. Accounting is that knowledge which helps us to record, classify and summarise the financial transactions that is eventually helped to determine the overall financial condition of a person or an institution.

**Activity:** Prepare a probable list of financial transactions of an institution.

## Objectives and necessity of accounting

1. Without proper recording of transactions, it is not possible to know the financial condition of a firm. Therefore, the financial objective of accounting is to record the transactions properly into the books of accounts.
2. One of the main objectives of accounting is to maintain financial statements and assets. It is possible to locate the position of a business through identifying the profit and loss. Recording all the incomes and expenses properly the profit and loss of a firm can be obtained.
3. The performance of financial condition can be seen by analysing the assets, liabilities, and owner equity of a firm.
4. Reducing cost and optimising the objective of a business. Accounting helps to check the expenses properly and thus helps reducing cost.
5. Accounting has no alternative in controlling the fiscal and liquidity of a business firm. With proper recording of accounts, we can control and monitor fiscal and liquidity.
6. Helps in improving financial condition to interested group and thus takes correct decisions.
7. Financial information of the previous year helps in taking proper steps by making comparative study.

1. Determine the source of internal and external flow of money of various various internal corporate organisations like schools, colleges, hospitals, clubs and societies and ascertain their average balance.
2. Give, accumulation through collecting VCE, donors and loans and contributes to different regular and development work. The role of accounting is great in managing assets/liabilities of govt. Besides, the books of accounts and related documents our world is a firm as many firms use the book or taking loan from money lending organisations, along the sales/purchase of a product, identifying labour cost factors etc. The necessity of accounting is very much essential for keeping a firm, disciplined and a disciplined life. Without keeping accounts properly, the profit and cost of an organisation can never be identified. Keeping records properly means cost control and savings of a firm and thus, assure financial stability.

**Activity:** How can accounting help in your daily life?

## The origin and evolution of accounting

From the history of evolution people used to keep records of different important events in the book of loan, by drawing lines on stones or bones. Then they started living in groups and developed social activities. After that they evolved themselves in agricultural activities. Later they learnt keeping accounts of stocks by making marks on the walls of houses and making loans with the help of rope. Gradually the number of population increased, society evolved, exchange system developed, currency was introduced and trade and commerce were initiated. Profound ideas, income-expenses and other transactions started being recorded mathematically in 1400, as Italian Mathematicians wrote a book entitled, *Summa de arithmetica, geometria, proportionis et proportionalitatis* (The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality) and explained the basic principles of book keeping through the double entry system in 1.

With the passage of time, progress also occurred in sciences, technology and in business and as such accounting developed. The nature of business grew from small to large. The use of accounting in 'realistic' support in personal and financial life along with commercial non-commercial govt and non govt profitable and non profitable organisations.



The development of accounting is related to the development of science and technology. From a days accounts are kept in computers rather manually. It saves time and labour as well as helps organisation taking desired decisions.

**Activity:** How does science and technology improve accounting?

### Users of accounting information



Accounting is known as an information system. Thinking about the internal and external users of accounting, reports and records of transactions are kept and statements are published.

#### Internal Users

1. **Owners and managers:** Accountants prepare books of accounts and other necessary documents. The owner, as well as the manager, tries to identify profit and loss and financial condition from the statement. So, future course of action can be ascertained.

#### External

1. **Bank/ credit providers:** Before granting loans to the recipient organisation, the credit providers analyse its financial condition whether it might be able to pay back the loan or not.
2. **Govt. tax authorities:** authority of the govt. might visit into the business and check whether organisations pay their sales taxes, and VAT and for taking necessary measures.
3. **Creditors:** Before allowing credit sales, the creditors always want to ensure that the recipient are in a financial state of paying back the due amount. This can only be possible by seeing the records of accounts.

4. **Workers and officers:** Workers and officers of organisations take the assistance of the financial statements to know and have their benefits from the profit of the organisation. Besides, students, teachers, managers and other concerned persons also use accounting information.

**Activity:** Prepare reports both of internal and external uses of accounting information.

### Relation of accounting system with society and environment

Accounting is not merely used for obtaining profit. Apart from making profit, it also contributes towards society and environment so that it is not affected by that. From the following illustrations, some applications of accounting towards society and environment can be discerned:



1. Organisations will contribute towards the protection of environment pollution and accounting will keep its records. The record will tell us about the contribution and contribution of that organisation towards the society and environment. Especially the oil refining companies contribute generously towards environment that being polluted.

2. Residue created from industry and factories is expensive to handle and store them. The waste and the companies should spend a lot of money for protecting the environment issues. For this, government's rules and regulations must be followed.

3. While producing a product, however, raw materials are used. Less electricity is consumed, the cost of machines remains at a reasonable time, and garbage should be dumped in proper place. It means there some expenses are to be made. Besides allocating the cost, an accountant must also make proper records of these expenses.

4. Every business organisation has to spend some money as a part of social commitment, such as providing scholarships among poor and meritorious students. For this, accounts act to be kept for proper fund allocation.

**Activity:** Prepare a portfolio list of signatures of a firm that are beneficial to the society as well as to the environment.

### Role of accounting in creating sense of value and accountability?

Value is the construction of long-term beliefs, thoughts, concepts and perceptions that create a specific mindset that helps people accepting the right and rejecting the wrong. Accounting helps creating value perception in the following manner:

1. **Timely and responsible:** If accounting methods are followed properly while keeping accounts, taxation, fixed, and management of assets could be kept under control thus ensuring timely re-keeping accounts.
2. **Build transparent relationships:** Accounting plays a vital role in removing the morality of becoming a defaulter of loan repayment. Therefore it builds value perception of not becoming a defaulter.
3. **Creating religious sense of value:** Proper use of God-gifted resources and reducing wastefulness are the part of religious values. If accounts are kept properly, the concept of 'not providing according to your faith' can be better practised in both individual as well as institutional life.
4. **To be responsible towards society and state:** The main sources of income of govt are VAT, customs, excise and income tax etc. By utilising the concept of accounting, accounts are recorded properly hence, the disjunct of tax pay tendency reduces.
5. **To prevent fraud and forgery:** If proper accounts are kept the chances of fraud and forgery among the officers and the staff reduces at a substantial amount. As such, they become cautious of misappropriation of funds and reduce chances.

### Accounting is accountability?

If a specific responsibility is assigned to a single person, he will only remain responsible for that job. Accounting responsible to third party means accountability. The role of accounting is described as keeping the accountability on record.

- a) **Internal accountability of the firm:** In a modern decentralised system, people are empowered to deal with their matters, requests and investments so that they may focus and concentrate on accountability results to their higher authority for answering their various queries.

**1) Responsibility towards owners, creditors, and investors:** People involved in facilitating and management of a firm must make sure that the prepared statements give a clear picture of the overall financial performance. The profit earned is to be used with the consent of people. If there is otherwise regarding corporate accountability there can be a case of great scrutiny on every economic and environmental action.

**2) Accountability towards Client:** Consumer satisfaction of the client, technological right to use whether good, value are being followed properly or not is customer. They need to see whether good, val., WFL, and status are being paid accordingly. Keeping track of accounts properly means such accountability.

## Exercise

### Multiple Choice Questions

1. Accounting :-

- a) Describes relationship with one another in society
- b) Describes about production systems
- c) Keeps records of Goods purchase and sales
- d) Recording, Classifying and Explaining of all financial transactions

2. How can the financial result be achieved of business-organizations?

- a) By purchasing Assets
- b) By taking control decision
- c) By controlling Expenses
- d) By purchasing Goods

3. Internal users of accounting information are :-

- a) Owner
- b) Manager
- c) Loan providing Bank
- d) None of these

Which one is correct?

- a) i & ii
- b) i, ii & iii
- c) i & iii
- d) i, ii & iii

4. Source B Technology :-

- a) Budget Accounting
- b) Budget Accounting
- c) Control for movement of Accounting
- d) Budget Accounting

5. Is software like this Accounting system?

- a) Accounting system
- b) Information system
- c) Auditing system
- d) Business system

6. Expected profit of an organisation can be achieved by :-

- |                              |                              |
|------------------------------|------------------------------|
| (i) Increasing Assets        | (ii) Decreasing Liabilities  |
| (i) Controlling Expenditures | (ii) Increasing Expenditures |

7. Example of service providing non-profit organisations:-

- (i) Education institute
- (ii) Advertising institute
- (iii) Charitable organisations

Which one is correct?

- |             |              |
|-------------|--------------|
| (i) & (ii)  | (ii) & (iii) |
| (i) & (iii) | (i) & (iii)  |

8. Principal objectives of Accounting are-

- (i) Determination of financial result
- (ii) Control of expenditures
- (iii) Assessment of financial position

Which one is correct?

- |             |              |
|-------------|--------------|
| (i) & (ii)  | (ii) & (iii) |
| (i) & (iii) | (i) & (iii)  |

## Chapter Two Transaction

From the primitive ages, people felt the necessity of keeping accounts. In these days people could exchange goods among them to maintain daily needs. The result that brings change in the financial position among people is known as transaction. Therefore, it is seen that not all events are transactions. To get the real picture of the organisation only the financial events are treated as transactions.



Decorative Fountain

After studying the chapter, we will be able to

- Classify an item about transactions
- Identify the nature of transactions
- Explain accounting equation
- Discuss the impact of transactions over accounting equation
- Prepare and explain the list of documents about the sources of transactions
- Prepare corrected documents related to transactions

## Concept of Transaction

In modern society for recording accounts, transaction is very important. Many events occur in business. However, not all these events can be recorded in the books of accounts. Only the events that are measurable in terms of money or something that brought changes financial position, are to be treated as transactions. For example, suppose Mr. Business bought an old car for ₹2000 but upon getting himself injured coming from the shop, took three residents car service. Only the first one is related to financial change and should be treated as transaction but the later has no relation to the financial matter and such should not be recorded as transaction.

Literally, the meaning of the word transaction is to 'transfer' and 'payment' that money paid and take. There are two types of transactions such as (1) External Transaction and (2) Internal Transaction.

In Internal Transaction, any financial event affects two parties or two organisations. For example, Sales store purchase goods from any supplier or inventory and paid to local bank by Business.

Without the cash or credit, purchase or sales there can be other exchange of services that lead to transaction. For example, salary paid to Mrs. Mahabhar for her job or received ₹ 40000 because of rent. This is also a transaction. Again, creditable events can also be a transaction. For example, for the month used for a long time, the depreciated assets can also be a case of transaction.

Exchange of money or any event which can be measured by money or services that reflects on the financial condition of a firm will be treated as transaction. Apparently if any exchange of product or service that brings a financial change will be known as transaction.

**Activity:** "Every transaction is an event, every event is not a transaction".  
Explain

## Features / Nature of Transaction

So far we have learnt that every transaction is an event but not every event is a transaction. By analysing the concept of a transaction, we will get the following features of it.

- a) **Measurable in terms of money:** One of the important features of a transaction is that it has to be measurable in terms of money or what could not be treated as a transaction. For example, the death of the manager of a firm is a loss to the firm but is not measurable in terms of money. However, goods destroyed by fire worth 20 lakhs is a loss to the firm and will be treated as a transaction.
- b) **Change of financial condition:** Every event brings up financial changes in a firm. It will be treated as a transaction. For example, Somebody bought furniture worth 1000 rupees. Here the furniture of the business has been increased by 1000 rupees at the same time cash 1000 rupees has also been decreased. Since this event has brought about a change in the financial position of the business, it will be treated as a transaction. Again, if an order of buying furniture worth 1000 rupees is placed, it will not be treated as a transaction as it has not brought any financial changes in the business, yet.
- c) **Must satisfy:** Every transaction must include two parties. That is one party will receive benefits while the other will incur the same. For example, when you pay to the vendor takes 1000. Here one party is the "vendor" expenses account while the other one is "cash account".
- d) **Complete and independent:** Another important feature of transaction is that each transaction is completely separate and independent from the other. For example, if 10,000 rupees of item is customer after 7 days of selling goods on credit. Here goods sold on credit is a transaction while 7 days later the payment received is a separate transaction.
- e) **Validities:** Transactions can be both visible and invisible. For example, when furniture is purchased worth 10,000 rupees. It is a visible transaction. Again, the depreciation of furniture worth 1000 rupees is an invisible transaction.
- f) **Historical event:** The financial matters that have taken place previously are known as historical transactions. If any future event changes the financial position of the business, it will also be treated as a transaction. For example, interest for bank debts, interest for deposit etc.
- g) **Impact over accounting equation:** The Accounting equation is affected by each transaction. Transaction causes change in different elements of accounting equation. "Assets = Liabilities + Owner's Equity" is the accounting equation. Therefore, any event is justified through accounting equation whether it is a transaction or not.



### Identifying transactions

Which events are transactions and which are not is explained by the following examples:

Following transactions have being recorded in the Company's books during January 2017

1. Started business with \$ 10,000
2. Purchased goods with cash \$ 15,000
3. Received cash from \$ 10,000
4. An order placed for purchasing goods worth \$ 5,000
5. Paid advertisement expenses \$ 1,000
6. Mr. Martin has been appointed as manager of business for a monthly salary \$ 7,000
7. Withdrawn \$10,000 from the business for personal use by the owner
8. T.C. Ltd has been started from company's personal fund.
9. A contract signed to purchase goods from Hardware Supplier's worth \$ 10,000 per month
10. Sold goods to client's on account \$ 10,000

Whether these events are transactions or not is explained with reasons:

#### Solution:

No.	Whether Transaction or Not	Explanation with reasons
1	Transaction	There cash brought in to start a business is financial change and cash-inflow is properly recorded as it is the capital of the owner and the owner's liability.
2	Transaction	Business purchase a merchandise of goods of inventory. Purchase of goods is an expense to the business, which has payment has financial out-flow change.
3	Transaction	Payment to the supplier has payment both the liability as well as the cash of the business, so financial position has been affected.
4	Not a transaction	Placing order for the purchase of goods does not mean actual purchase. The buying and selling of the goods have not been when place as it is not a transaction.
5	Transaction	The business has taken a borrowing by paying advertisement and the value payable will be properly financial change.
6	Not a transaction	Employing appointment have no any person has not brought any financial change to the business, therefore not include any cash flow either.
7	Transaction	The owner has taken a benefit by withdrawing amount from the business, so the cash of the business has been reduced.

i.	Not a Transaction	Loan of personal savings to one relative by the business. As loan belongs to the owner alone. It is the only other business is not affected.
ii.	Not a Transaction	Bus. firm agrees to purchase the assets, however bus. not taken place and the payment of funds is neither made. It is no financial change even in the business.
iii.	Transaction	By selling goods on credit to third, the business has given rise a liability, which is an increase in the business. It has brought in financial change.

### Accounting Equation.

In a particular time, the total assets of an organisation should be equal to the sum of owner's equity and external liabilities. The equation that represents this fundamental concept is known as the accounting equation. Accounting scholars have only identified those as transaction that affect the elements of accounting equation (Assets-Liability + Equity). Therefore, the events that make changes in assets, liabilities, and equity are classified as transactions.

Accounting Equation mentioned below.

$$\begin{array}{c}
 \text{A} \\
 \text{(Assets)}
 \end{array}
 =
 \begin{array}{c}
 \text{L} \\
 \text{(Liabilities)}
 \end{array}
 +
 \begin{array}{c}
 \text{E} \\
 \text{(Equity)}
 \end{array}$$

$A = L + E$  | Here, A = Assets  
 $L$  = Liabilities  
 $E$  = Equity

**Assets:** Assets means the economic resources that belong to a business that is needed for making profits. For example, Furniture, buildings, machinery of a business.

**Liability:** Liability means the financial liability that has to be paid up after a certain period of time. That is, it is the claim of the third party over the total assets of the business.

**Equity:** If the claim of the third party is deducted from the total assets of the business, the rest will be known as equity. That is the claim of the owner over the entire assets of the business is known as equity. Four elements affect equity. These are:

- Investment of owner
- Assets sold
- Drawings
- Expenses

Shown by the picture :



Extending Accounting Equation, we get :

Assets = Liabilities + Capital = Revenue - Expenses - Drawings

Where,

$$A = L + (C + R - E - D)$$

Where,

A=Assets

L=Liabilities

C=Capital

R=Revenue

E=Expenses

D=Drawings

If an event is to be a transaction, it has to make any one of the following changes:

1. If total asset increases, total liabilities or owner's equity will also increase.
2. If total asset decreases, total liabilities or owner's equity will also decrease.
3. If one asset increases, the other asset will decrease.
4. If owner's equity increases, total liabilities will decrease.
5. If owner's equity decreases, total liabilities will increase.

The impact of transactions over accounting equation is shown in the chart:

1 (a) Started business with £1,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital-Reserves Expenses-Profit/loss
1,000			=		1,000

Both Assets (cash) and Equity (capital) increased.

1 (b) Purchased machinery on credit £1,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital-Reserves Expenses-Profit/loss
	1,000		=	1,000	

Both Assets (machines) and Liabilities (creditors) increased.

2 (a) Paid to creditors £1,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital-Reserves Expenses-Profit/loss
(1,000)			=	(1,000)	

Both Assets (cash) and Liabilities (creditors) decreased.

2 (b) Salaries paid in cash £2,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital-Reserves Expenses-Profit/loss
(2,000)			=		(2,000)

Both Assets (cash) and Equity (expenses) decreased.

3 Purchases purchased in cash £1,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	Capital-Reserves Expenses-Profit/loss
(1,000)		1,000	=		

Assets (cash) decreased and another Asset (Furniture) increased.

#### 4. Business loss of \$ 5,000 paid off by the owner personally

A. (Assets)			=	L. (Liabilities)	E. (Equity)
Cash	Machinery	Furniture		Loans	Capital + Reserve - Expenses + Drawings
			=	(5,000)	5,000

Liabilities (loans) decreased and Equity (capital) increased.

#### 5. Goods purchased on credit of 7,000

A. (Assets)			=	L. (Liabilities)	E. (Equity)
Cash	Machinery	Furniture		Creditors	Capital + Reserve - Expenses + Drawings
			=	7,000	(7,000)

Liabilities (creditors) increased and Equity (expenses) decreased.

The impact of transactions over accounting equation is shown in the chart:

#### \*Munish & Associates started legal partnership business on January 1, 2017

The transactions of the first month were as follows:

- Jan 1 Invested \$ 50,000 in business as Capital
- Jan 2 Paid the rent for the month of January \$ 1,000
- Jan 7 Office furniture purchased on credit worth \$ 15,000
- Jan 10 Legal services given to the clients for cash \$ 4,000
- Jan 15 Paid salary to the office staff \$ 1,000
- Jan 20 Sales made from the firm \$ 20,000.
- Jan 24 Legal services provided to the clients on credit \$ 8,000
- Jan 28 Outstanding amount for machinery purchased has been paid \$ 10,000

Following accounts are identified by analysing transactions of \*Munish & Associates for the month of January 2017

1. Cash Account
2. Capital Account
3. Rent Account
4. Office Machinery Account/ Service Expensed Account
5. Accounts Payable/ Machine Supplier Account
6. Storage Services Account
7. Debitors Account / Accounts Receivable
8. Salaries Account
9. Bank Loan Account



### Source of business transactions and related documents:

In support of each transaction, one or many documentary evidence is sent. These carry the evidence of transactions. For example, any businessperson can make several transactions in a single day. Goods sold, goods purchased, return of purchased goods, return of sold goods, depositing money or withdrawing the same in a bank are bank transactions may occur regularly in a business. In addition, these events are actually the main source of transactions. Transactions made throughout the calendar year are responsible to be recorded. Therefore, the transactions are to be properly recorded in the books of accounts. Whenever an accountants book is increased these transactions, these documents are prepared. These documents are the vouchers, cash receipts, bill, order notes, credit notes, VED receipts etc. The explanation, systematic entry and use of these documents are described here.

1. **Seller's Invoice** is a documentary proof of goods purchased & sales. When a seller representative sells goods, he delivers a written document summarizing the full details of the purchase. This written document is called invoice. Buyer's name & address, quantity of goods, description of goods, value of goods and terms of payment etc. are mentioned in the invoice. Seller considers it as an external source and buyer is external Invoice. On behalf of this invoice, a buyer prepares Purchase Journal and as seller prepares Sales Journal.

Invoice No. 45721		Invoice is Issued (To: Buyer/Debtor, From: Seller)		Date: 10 March 2020
Buyer's Name: ABC Retail Store Address: Road from, Gurgaon		<b>Invoice</b>		
QTY	Description of Goods (Qty, Unit Price) (Cost, Trade Discount (2%))	Rate of Unit (Rs)	Qty (and %)	Amount Total (Rs) Total (Cost +) (and %)
				10,000
Signature: _____ Date: _____ VAT Number: _____				Seller's Signature

Note: The external relation related from the purchase given a Invoice or trade document.

2. **Voucher** The documentary evidence, which is used for transactions, is known as a voucher. For example, the seller gives a voucher to the buyer for goods sold Rs.1000. Again, a property owner gives a voucher to an tenant after receiving Rs.10,000.

**Receipt and receipt types** They are:

- (i) Debit Voucher
- (ii) Credit Voucher

**Debit Voucher:** Debit voucher is used for goods purchase and different types of expenses. It is recorded on the debit or payments side of the cash book or cash register standing on one or, a cash entry with a consecutive serial number.

### Sample of Debit Voucher

<b>ABC Co. Holder</b> Order No. 1234567			
Debit Voucher No. _____		Date _____	
Book of Account _____		Account's Name _____	
Address _____		Address _____	
No.	Description / Expense	Amount / Rs.	
Total/Total			

**Credit Voucher:** The voucher, which is used for sale of goods and services received. Credit or credit voucher is recorded on the credit or receipts side of the cash book or cash register, it is recorded with a consecutive serial number on the debit side (Payment side) of the cashbook.

### Sample of Credit Voucher

<b>ABC Co. Holder</b> Order No. 1234567			
Credit Voucher No. _____		Date _____	
Book of Account _____		Account's Name _____	
Address _____		Address _____	
No.	Description / Expense	Amount / Rs.	
Total/Total			



3. **Cash Memo.** A cash memo is given at the time of cash sale. The seller usually gives a cash memo to its buyer. The name and the address of the shop are generally printed at the top of the cash memo. Mentioning the name of sold goods, quantity, rate, total value and value of discount via a seller sends copy the cash memo to a buyer with his signature. The cash memo is generally prepared in triplicate.

#### Sample of Cash Memo

<b>Adnan General Stores</b> 22 New Market, Dhaka      Date: 1 January 2017				
<b>Cash Memo</b>				
Buyer's Name: Shamsud Din Address: Chandra Canton				
S. No.	Description	Rate	Qty	Amount (Tk.)
1	Oil 100 Litre (Domestic Oil Co.)	120	100 per	12000
				12000
				12000
Total/Total Price Amount (amount in words)				
Buyer's Signature:				Seller's Signature:
(date, time and place of receipt)				

4. **Debit Note** When bought goods are returned to the seller due to inferior quality or not being according to the letter of order, a note is prepared by the buyer detailing details i.e. quantity, rate and value and the reason of return of the goods. The note is then sent to the seller along with the goods and the supplier is informed of the note that his account has been debited with that amount due to those returned goods. This note is called Debit Note. The buyer usually prepares a Debit Note.

#### Sample of Debit note

<b>Imran Brothers</b> National Highway		
Debit Note No. 100		Date: 10 August 2017
<b>Debit Note</b>		
Name: Mr. Imran Begum Address: 22, Larkana, Dhaka Tel: (Dhaka) Imran No. 100 / 10 August 2017		
S. No.	Description & Name of returning goods	Amount (Tk.)
1	Superior Quality Paper No. 1 and 2nd quality Paper return to seller for inferior in quality from supplier	10,000
	Same Debit amount	10,000
		10,000
Total/Total Price Amount (date, time and place of receipt)		Supplier's Signature:

**4. Credit Note:** When the seller receives returned goods from the purchaser the invoice is cancelled for the purchaser stating the description of goods, its quantity, its value etc. and thereby informs the purchaser that his account has been credited with the value of returned goods. This document is called Credit Note.

### Sample of Credit note

M/S. Anoop Enterprise (F. Bhatia, Mohd. A. Khan)			Date: 27 August 2017
Concessionary ID: <span style="border: 1px solid black; padding: 2px;">Credit Note</span>			
Name of Merchant: Anoop Enterprise			
Address: Noida, Haryana			
Ref. Invoice No. (14 August 2017)			
M. No.	Description of Nature of returning goods	Amount (₹ only)	
1	10 per cent. for the items of ₹ 1,000 returned. Your account is credited with returned goods price.	₹ 1,000	
	Less: Trade discount	₹ 200	
		₹ 800	
Merchant's Trade Account No.			
Sales Manager			
<b>Activity:</b> Prepare a debit voucher for goods purchase valued ₹ 25,000 using any given 8 items.			

### Exercise

#### Multiple-Choice Questions:

Notes:

- Which one is not a transaction for the business?
  - Goods bought from local traders on credit for ₹ 1,000
  - Goods sold to Fakhri Stores for ₹ 1,000
  - Placed an order to buy goods worth ₹ 1,000 from Tania Enterprise
  - Goods for ₹ 1,000 returned to local Fakhri Stores
- Events related to transactions are:
  - Buy to equity
  - Buy to liability
  - Flow to equity

Which one is correct?

  - (i) & (ii)
  - (ii) & (iii)
  - (i) & (iii)
  - (i) & (ii)

3. Debit Note is used for

- (a) Goods bought on credit returned out      (b) Goods sold on credit returned in  
(c) Goods bought for cash returned out      (d) Goods sold for cash returned in

4.  $A = L + E$  is the expansion of equation

- (a) Asset    (b) Owner's Equity    (c) Liability    (d) Profit

From the following information answer questions no 5, 6 and 7

Mohan trader started business with 50,000 rupees on January 1, 2017. Goods sold in April amounting 10,000 rupees, value of goods worth 3,000 rupees was returned in the previously confirmed transaction (rupees 3,000) as damaged.

5. Starting business with 50,000 rupees reflects statement of accounting equation is going to be affected by this?

- (a) Asset    (b) Liability    (c) Asset and liability    (d) Asset and Equity

6. Which note will be prepared for Rs. 3,000 transaction by Mohan trader?

- (a) Debit Note    (b) Credit Note    (c) Notes receivable    (d) Notes payable

7. Destroying 3,000 rupees in the return the business will affect as

- (a) Asset will decrease  
(b) Capital will decrease  
(c) Goodwill will decrease  
(d) Nothing will happen

8. Withdrawal by personal use for the management or for accounting purposes—  
(a) Asset will decrease    (b) Liability will decrease    (c) Equity will decrease  
Which one is correct?

- (a) 1 & 2    (b) 1 & 3    (c) 1 & 4    (d) 1, 2 & 3

9. Which one is wrong? By transaction —

- (i) Owner's Equity increases if total asset decreases  
(ii) Total liability decreases if total asset increases  
(iii) If one asset increases, the other asset will also decrease

Which one is correct?

- (a) 1 & 2    (b) 1 & 3    (c) 2 & 3    (d) 1, 2 & 3

10. Which one is correct?

- (a)  $A = L + E$     (b)  $E = A - L$     (c)  $L = A + E$     (d)  $A = L + E$

**Creative Questions.**

1. **Walter Enterprises** is a business organization. Following transactions took place in this business in December 2017:

- Dec. 1 Started business with \$5,000,000
- Dec. 5 Opened a bank account, depositing \$50,000
- Dec. 5 Goods purchased on credit \$5,000
- Dec. 7 Goods sold on credit \$5,000
- Dec. 10 The owner withdrew from bank the personal papers \$5,000
- Dec. 12 Order placed for buying furniture \$5,000
- Dec. 16 Paid to Customers \$15,000

- a) Calculate the total amount of these events, which are not transaction
- b) Identify the transactions from events explaining events under equation method
- c) Show the effects of the transaction on accounting equation in tabular form.

2. Following transactions took place in 'Chapman Brothers' in January 2017:

- Jan. 1 Capital brought in/Investment \$5,75,000.
- Jan. 1 A manager expended with \$5,000
- Jan. 7 Good goods on credit \$5,000
- Jan. 10 Inventory purchased on cash \$5,000.
- Jan. 12 The owner paid his son's tuition fees \$5,000 personally
- Jan. 20 Received \$5,000 from Jackson Traders
- Jan. 28 Paid \$5,000 for advertisement

- a) Calculate the total amount of these events, which are not transaction
- b) Explain the reasons of 'Chapman Brothers' transactions under equation method
- c) Show effect of the transaction of 'Chapman Brothers' on Accounting Equation

3. **Adithi started** her legal professional business named 'Legal Aid' on 1<sup>st</sup> May 2017. The events of the first month were as follows:

- May 2 Received \$5,00,000 as her business
- May 4 Paid office rent \$5,000
- May 8 Service equipment purchased on credit worth \$5,000.

- May 12 Legal services provided to the clients for cash £ 35,000  
 May 16 Paid salary to the office staff £ 10,000  
 May 26 Loan taken from the bank £ 1,00,000  
 May 27 Legal services provided to the clients on credit £ 60,000  
 May 30 Paid £ 30,000 against credit purchase of Service Equipment.

- Calculate the capital amount of Service Equipment.
- Calculate the amount of Assets's equity at the end of the month.
- Show the effects of May's transactions on accounting equation.

4. Sales Trades sold the following goods to Kaps Trades on February 2015:

- Feb-1 110 Kg Sugar @ 20 per Kg for cash  
 Feb-7 50 Kg Sugar @ 15 per Kg  
 Feb-15 30 Kg Maize @ 10 & 10 per Kg

Sales Trades allowed 10% Trade discount on cash sales.

- Calculate the total amount of sales of Sales Trades.
- Prepare a Cash memo for the transaction of February 1.
- Prepare an invoice for the transaction of February 15.

5. James J. Traders have started business on 1 January 2015 with cash:

- 1, 10,000 & Furniture £ 20,000 Following transactions happened during the month:

- Jan-01 Opened a Bank Account in Trade Bank by depositing £ 50,000  
 Jan-04 Goods purchased £ 45,000 from Bold Enterprises, cash paid £ 20,000 & cheque issued £ 25,000  
 Jan-06 Goods sold £ 30,000, cash £ 20,000 & cheque £ 10,000 received against the sale.  
 Jan-08 Paying £ 10,000 paid to Bold Enterprises.  
 Jan-10 Owner withdrew £ 1,000 from Bank for own purpose.  
 Jan-15 Advertisement Expense paid £ 1000

- Calculate the amount of opening capital for James Traders.
- Considering the above transactions given, A-C/E
- Calculate the amount of Owner's Equity for James Traders.

6. Saleh's All Florist opened a business named "Saleh's All Florist" on 01 January 2017 with cash of 15,20,000. A bank deposit of 7,20,000 instant bank transactions took place during the month.

- January 05     Service provided to clients of. 11,000  
January 09     Monthly rent of 40,000 paid by cheque  
January 11     Paid to 11,000 for advertisement  
January 15     Utility bill paid of. 17,000  
January 21     Purchase of office supplies of 17,000 on account.  
January 28     Service provided to clients of 1,11,000 on account.  
January 30     Cheque received against the amount provided on January 28  
January 31     Amount paid of 14,000 against office supplies

- a) Calculate the unpaid amount for office supplies.  
b) Calculate the total amount of expenses for the month January  
c) Show the effect of transactions on financial position of business

7. Following events occurred during the month January 2017 in the business of Ben in London

- January 01     Cash purchase of. 80,000  
January 11     Furniture purchased of 20,000 for office  
January 15     Goods sold on credit of 1,15,000  
January 20     Office resigned of. 10,000  
January 25     Deposited into bank of 20,000.  
January 30     Goods purchased on credit of 20,000

- a) Calculate the amount of purchase for the month of January  
b) Calculate the amount of cash transactions of Ben in London during the month  
c) Using the transactions of Ben in London show that "A = L + E" through Accounting Equation.

8. Mr. John has started a vehicle repairing business named 'John Workshop' on 01 January 2017. Following transactions have occurred in his business.

- |            |   |
|------------|---|
| January 01 | Mr. John invested Rs. 5,00,000 in business.             |
| January 04 | Electricity purchased Rs. 45,000 for using in business. |
| January 11 | Paid Rs. 80,000 received from supplying vehicle.        |
| January 24 | Rent of workshop paid Rs. 21,000.                       |
| January 28 | Salaries paid to employees Rs. 25,000.                  |
| January 30 | Owner's personal vehicle repaired Rs. 1,00,000.         |

- Calculate the amount of capital of Mr. John.
- Calculate the amount of business expenses during January.
- Show the other information on Accounting Equation.

## Chapter Three

# Double Entry System

Throughout the world Double Entry System is established & known as dependable, scientific, and complete system for keeping accounts in the business. In double entry system each transaction that occurred or measurable in terms of money is expressed in dual entry. There is no alternative method of Double Entry System to know the actual result and financial condition of business.



At the end of this chapter we will able to

- Explain the dual entry concept
- Discuss the concept of source of double entry system
- Explain the advantages of double entry system
- Identify the two party involved in transactions i.e. Debit and Credit
- Explain the various steps involved in Accounting Cycle
- Identify the appropriate book for transaction
- Calculate the profit or loss by taking in effect of double entry system





## Concept of Double Entry System

The famous Mathematician Luca Pacioli described the perfect and proper recording system of financial events in 1494. That system is known as Double Entry System. Double-entry system is considered as the only complete, reliable and scientific system. There is a kind of dual entry-concept for every transaction in this system. There have been two or more accounts in every transaction. These accounts are written in dual entry concept. One is Debit and the other is Credit. Two parties of transaction i.e. Debit & Credit are recorded in accounts by Double entry system. In this method, the same amount is written for both debit and credit. Therefore, at any time, if the year desired amount of debit is always equal to the total amount of credit. The procedure, which is followed to record dual entry of transactions for preparing accounts correctly is called Double Entry System.

The concept has been explained with an example:

**Salary paid to office staff Rs. 1,000**

For recording the transaction under double entry system, we need to identify the two parties involved in it. Two accounts involved in it are

- 1. Salary Account
- 2. Cash Account

Since salary is an expense to the business, expense has been increased and as salary is paid, cash will be debited. Again, cash goes out while salary is paid, so cash or asset will decrease and cash account will be credited.

So, it is clear that the same amount has been debited both the salary and cash account. This is the basic principle of Double Entry System.

## Principles or Characteristics of Double Entry System

The most scientific, accurate, complete and self-sufficient system of accounting is the Double Entry System. In double entry system each transaction is recorded in terms of money or money's worth in a twofold aspect and one party is debited for making the benefit while the other will be credited for incurring the cost.

Principles or Characteristics of Double Entry System are as follows:

1. **Equal Entry:** In every transaction, there are at least two accounts. While debiting debit and credit concerned accounts are to be identified first and then their classification of account is noted. These debit and credit accounted by Double entry system.

1. **Debit and credit:** In every transaction, benefits received is debit and benefits given acts as the credit for
2. **Making debit and credit:** The benefits received is made debit while the benefits given is made credit
3. **Exchanged equal amount:** In every transaction, the amount of debit and credit will be equal
4. **Compensating result:** Since in every transaction the debit and credit are analysed and recorded as equal amount, it is easy to detect the mismanagement. The total of debit side should be equal to the total of credit side

### Advantages of Double Entry System

The double entry system is complete, dependable, accurate, and self-dependent. The account system has many benefits. For these advantages of double entry in large business organisations this method is popular for keeping accounts. These benefits are described below:

1. **Complete account:** Since debit and credit of each transaction are analysed and recorded as equal amount, the complete account of any transaction can be obtained.
2. **Accurate profit/loss:** As the revenue income-expenditure are recorded correctly and completely in this method, the net profit or loss is possible to calculate preparing comprehensive account statement after a particular time.
3. **Verifying arithmetic accuracy:** For each transaction equal amount will be debited & credited. Therefore, the arithmetic accuracy can be tested continuously due to preparing a trial balance.
4. **Ascertain financial position:** Preparing financial statements can confirm that the financial position of a firm is healthy or not.
5. **Making audit & finding and remove its prevent the same:** If the accounts are kept under this method, the frauds and forgery can easily be detected and thus be prevented.
6. **Cost control:** Under this method, excessive expenses can easily be controlled.
7. **Identifying total debts & credits:** The owner can detect his financial debt and credits very true under this method, and take necessary steps.

8. **Ascertain proper amount of tax:** If the accounts are kept under this method, the various types of tax like income tax, export-import duty VAT and income tax payable to concerned authorities.
9. **Easy for applying:** Each transaction is recorded individually analysing Debit and Credit in double entry system. Therefore, every small & big organisations can apply this method easily.
10. **Universal acceptance:** Double Entry System being scientific, complete, efficient and dependable has been recognised as a universally recognition.

### Procedure of Identifying Debit and Credit

It is theoretical nature that in double entry system total debit amount is equal to total credit amount. This concept is the base of Accounting equation. Primary elements of accounting equation are Assets, Liabilities & Equity.

Therefore, it can be said that we are following types of accounts as follows:

- 1 Asset    2 Liability    3 Equity    4 Income and    5 Expense

**Method of allocating debit credit for different accounts described below:**

**1. Asset:** Due to transactions, asset may increase or decrease. For example, purchase of furniture increases asset and selling the same decreases asset. Increase of an asset is debit while a decrease of the asset is credit.



**2. Liability:** Like asset, liability can also be increased or decreased. For example, taking loan from bank increases liability while paying installment of it decreases. The relation of liability is opposite to asset. Therefore, increase of liability is credit while decrease of the asset is debit.



## Double Entry System

**3 Equity:** For starting the business, the owner brings capital. Here the owner's equity increases. Again, if the owner withdraws cash from the business, the owner's equity decreases. Owner's equity is a kind of liability to the business. Because according to the principle of accounting the owner and the business have separate identity. Therefore, the liability of owner's Equity increases if it is credit, but which decreases if it is debit.

**4 Revenue or Income:** The only objective of business is to earn profit. Usually profit is the portion of revenue which is left after deducting expenses. Therefore, we can say that revenue increases owner's equity. Therefore, increase of revenue is credit while the decrease of the same is debit.

**5 Expense:** Expense is opposite to revenue. Since revenue increases owner's equity, so increase of expense is debit and decrease of the same is credit.



**Effects of Double Entry System on Transactions are described below with examples:**

1. Mr. Khan has started business bringing in tk. 20,000 as capital.
2. Furniture bought for business tk. 5,000.
3. Employees salary paid off tk. 4,000.
4. Cash Payment tk. 20,000.
5. Tk. 25,000 was deposited into bank.
6. Goods sold tk. 18,000.
7. Cheque paid for advertisement tk. 3,000.
8. Commission received tk. 2,000.
9. Interest received from bank tk. 1,200.
10. Goods sold on credit tk. 12,000.
11. Cheque paid for rent tk. 5,000.
12. Tk. 4,000 has been withdrawn from bank for business.

**Debit and Credit aspect of above transactions identified with explanation (Table to be repeated twice)**

No.	Account/Head	Debit	Credit	Effect of Double Entry System
1	Bank Account Capital Account	Debit Credit	₹10,000 ₹10,000	As the cash is paid, increased in Bank A/c. Amount ₹10,000 will be going out of the business. By credit, amount ₹10,000 is increased in Capital A/c account.
2	Bank Account Cash Account	Debit Credit	₹1000 ₹1000	As the money is received, increased in cash account. Therefore, Bank A/c account is credited and Cash A/c account is debited.
3	Bank Account Cash Account	Debit Credit	₹1000 ₹1000	As the money is paid, reduced in the money account. As cash is increased in, Bank A/c account is debited and Cash A/c account is credited.
4	Bank Account Cash Account	Debit Credit	₹10,000 ₹10,000	As the money is paid, reduced in the money account. As cash is increased in, Bank A/c account is debited and Cash A/c account is credited.
5	Bank Account Cash Account	Debit Credit	₹10,000 ₹10,000	As the money is paid, reduced in the money account. As cash is increased in, Bank A/c account is debited and Cash A/c account is credited.
6	Cash Account Bank Account	Debit Credit	₹10,000 ₹10,000	As the money is paid, reduced in the cash account. Therefore, Cash A/c account is debited and Bank A/c account is credited.
7	Advancement A/c Bank Account	Debit Credit	₹1000 ₹1000	As the advancement is given, reduced in the money account. Therefore, Advancement A/c account is debited and Bank A/c account is credited.
8	Cash Account Advancement A/c	Debit Credit	₹1000 ₹1000	As the money is received, increased in the cash account. Therefore, Cash A/c account is debited and Advancement A/c account is credited.
9	Bank Account Bank Interest A/c	Debit Credit	₹1000 ₹1000	As the interest is received by bank, increased in the bank account. As interest is increased in, Bank A/c account is debited and Bank Interest A/c account is credited.
10	Bank Account Bank Interest A/c	Debit Credit	₹10,000 ₹10,000	As the interest is received by bank, increased in the bank account. As interest is increased in, Bank A/c account is debited and Bank Interest A/c account is credited.
11	Bank Account Bank Interest A/c	Debit Credit	₹1000 ₹1000	As the interest is received by bank, increased in the bank account. As interest is increased in, Bank A/c account is debited and Bank Interest A/c account is credited.
12	Cash Account Bank Interest A/c	Debit Credit	₹1000 ₹1000	As the interest is received by bank, increased in the cash account. Therefore, Cash A/c account is debited and Bank Interest A/c account is credited.

**Activity:** Calculate the debit & credit of the following transactions (Identifying accounts in the books of M/S. Jaya & Co. –

1. Mrs. Jaya Mukherjee has made additional investment Rs 20,000
2. Computer purchase for office Rs 25,000
3. Office rent paid in advance for three months Rs. 12,000
4. Sold to buyer Rs 25,000
5. Bank charged Rs. 1,500
6. Withdrawn from bank Rs 5,000
7. Goods purchased on credit Rs. 15,000
8. Wages paid Rs. 1,000
9. Purchase return Rs 2,000
10. Deposited into bank Rs. 70,000

### Accounts kept under double entry system:

The main accounts which are kept under double entry system, are shown below as **Journals**. After transaction occurs then it is described as debit and credit is ascertained and then it is recorded in a book. This book is known as the primary book of account or **Journal**. Types of journal are:

1. **Purchase Journal** – Goods purchased on credit are recorded in this journal

2. **Sales Journal** – Goods sold on credit are recorded in this journal

3. **Purchase Return Journal** – In purchase return journal goods purchased on credit, returned are recorded in this journal

4. **Sales Return Journal** – In sales return journal goods sold on credit, returned are recorded in this journal

5. **Cash Receipt Journal** – Transactions that relates to cash receipt are recorded in this journal

6. **Cash Payment Journal** – Transactions relate to cash paid are recorded in this journal



**7 Journal Proper:** Transactions which are not to be recorded in any of the above journals are recorded in journal proper.

**8 Ledger:** The book where all the transactions of journal are included by transferring individually to related accounts with appropriate title is called Ledger.

### Accounting Cycle

Accounting is ongoing concept, it is expected that the business will go on forever. The continuous cycle of keeping account is known as Accounting cycle.

#### 1. Identifying Transactions

Analysing each event, transactions are identified in the first stage of accounting cycle.

#### 2. Analyzing Transactions

In this stage, each transaction is analysed and account are identified. For example, Machine was bought for Rs. 5000. Here two accounts are involved. One Machinery Account and the other cash account.

3. Journalising: Analyzed accounts entered into the primary book of Accounts as Debit and credit simultaneously and the journalising is done.

4. Transfer to Ledger: In this stage, transactions recorded in journal are recorded into the separate books of accounts. Different ledgers are prepared for each heads of accounts and the balance of which is determined on a certain date.

5. Preparing Trial Balance: Trial balance is prepared to verify whether the transactions are recorded accurately in those concerned trial of account and with the balance of debit and credit of ledger a trial balance is prepared.

6. Adjusting Entries: To identify the actual financial condition of a business the necessary entries, accrued expense, suspense (profit or loss) and



Accounting Cycle

assumed expense these items of a particular accounting period are adjusted through adjusting entries.

7. **Prepare Statement:** For the objectives of preparing the financial statement, next, an optional trial balance statement is prepared. It is known as worksheet.
8. **Preparation of Financial Statement:** With the financial statement, the account of profit/loss, assets, liability and owner's equity of a business is determined.
9. **Closing Entry:** The balance of the revenue account, revenue expense, and drawings of a business need to be closed at the end of the year. The income and expense of a business would be closed with the remaining asset, liability, and owner's equity the next year starts. Therefore, trial balance after accounting year or opening period is prepared.
10. **Post Closing Trial Balance or Opening Journal:** Income, Expense & Drawing accounts are being closed by closing entry. These accounts of period starts with the remaining balance of Asset, Liability & Owner's Equity accounts. Post closing trial balance or opening period is prepared for this.

## The Continuity Concept of Accounting

According to going concern concept, a business will go on for an indefinite period. At the end of each accounting year, the business are continued again with same purpose for keeping accounts. Therefore, at the end of current accounting period continuously next accounting period start with recording of business from newly. Therefore, it is observed that subject matter related to accounts are continued each year continuously. This is the continuity of accounts.

It is understandable that, according to continuity aspect at the beginning of each accounting period all assets are being debited and all liabilities are being credited which were shown in the last year's statement of financial position for starting the journey in the next accounting period.

## Single Entry System

Single entry system is suitable for businesses, which are small, and the transactions are limited. In this method or some businesses only one party, double in others while some is recorded in the remaining ones. Usually single entry system is not of full scientific system. In this method, though some



accounts related to assets and liability are kept but provisions for the cost of income and expense is never replaced. The following formulae method are applied for determining the profit and loss of the business.

$$\text{Profit/Loss} = (\text{Closing Capital} + \text{Drawings}) - (\text{Opening Capital} + \text{Additional Capital})$$

$$\text{Opening Capital} = \text{Total opening assets} - \text{Total opening liabilities}$$

$$\text{Closing Capital} = \text{Total closing assets} - \text{Total closing liabilities}$$

The difference is considered as profit when the total amount of closing capital & drawings is bigger than the total amount of opening & additional capital and is loss when it is smaller.

Mrs. Shobha Khan is a small businessperson. Following information are extracted from her accounts book.

	31/03/2017	1/1/2017
Total Assets	1,20,000	1,20,000
Total Liabilities	20,000	20,000

In 2017 her additional capital is 20,000 and total drawings is 20,000.

**Solution:**

Opening Capital	= Total opening assets - Total opening liabilities = (1,20,000 - 20,000) = 1,00,000
Closing Capital	= Total closing assets - Total closing liabilities = (1,20,000 - 20,000) = 1,00,000
Profit/Loss	= [(Closing Capital + Drawings) - (Opening Capital + Additional Capital)] = [(1,00,000 + 20,000) - (1,00,000 + 20,000)] = [1,20,000 - 1,20,000] = 0,000 ∴ Amount of Profit = 0,000 Taka

**Answer:** Profit is zero and as a businessperson of primary class, the capital was Rs 70,000 on 1 January 2017. The amount of drawings is 20,000 and the Shobha Khan may additional capital in this year. On 31 December 2017 total assets & total liabilities were Rs 1,20,000 & Rs 20,000 respectively. Calculate the amount of Profit/Loss.

## Exercise

### Multiple Choice Questions

- Why double entry system is more popular for keeping accounts?
  - Easy method
  - Difficult and scientific method
  - Easy and incomplete method
  - Complete and scientific method
- The features of Double Entry System are-
  - It has two parties, Receiver and Giver
  - Total amount of Debit will be equal to total amount of Credit
  - Receiver is Debit and Giver is Credit

Which one is correct?

- |             |                 |
|-------------|-----------------|
| a) i & ii   | b) i & iii      |
| c) ii & iii | d) i & ii & iii |

Considering the following information answer questions no. 3, 4 & 5:

Total Assets and Total Liabilities of Kama Traders on 1 January 2017 were Rs. 185,000 & Rs. 175,000 respectively.  
 On 31 December 2017:

Cash Rs. 20,000, Stock of goods Rs. 30,000, Debtors Rs. 80,000, Creditors Rs. 40,000, Drawings Rs. 15,000, Creditors Rs. 15,000, Bank Loan Rs. 20,000. Additional Capital brought in by the owner at the end of the year is Rs. 50,000 and owner's withdrawal was from business Rs. 25,000.

- What is amount of opening capital of business?
  - Rs. 1,80,000
  - Rs. 1,50,000
  - Rs. 1,20,000
  - Rs. 90,000
- What is the total amount of closing liabilities?
  - Rs. 70,000
  - Rs. 90,000
  - Rs. 1,10,000
  - Rs. 1,25,000
- What is the amount of profit for the year 2017?
  - Rs. 20,000
  - Rs. 70,000
  - Rs. 1,10,000
  - Rs. 1,25,000

4. Generally, what type of account is not kept in single-entry system?

- a) Asset
- b) Liability
- c) Expense

Which one is correct in the following?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

5. Which one is correct?

- a) Opening capital = opening total assets + closing total assets
- b) Closing capital = opening total liabilities + closing total liabilities
- c) Opening capital = opening total assets – opening total liabilities
- d) Closing capital = opening total assets + closing total assets

6. Which one is not enough working for Financial statement?

- a) Trial balance
- b) Adjusting entries
- c) Closing entries
- d) Worksheet

7. Which sequence is correct?

- a) Trial balance, adjusting entries, worksheet, financial statement
- b) Adjusting entries, trial balance, financial statement, worksheet
- c) Worksheet, trial balance, adjusting entries, financial statement
- d) Trial balance, worksheet, adjusting entries, financial statement

8. If opening capital is \$ 70,000 and closing capital is \$ 76,000, what is the amount of profit or loss?

- a) Profit is 26,000
- b) Loss is 26,000
- c) Loss is 76,000
- d) Profit is 76,000

9. Which one is the principle of Double Entry System?

- a) Purchase increases Debit, income decreases Credit
- b) Expense increases Debit, income decreases Credit
- c) Revenue is Debit and Expense is Credit
- d) Revenue is Credit and Expense is Debit

From the following information, answer the questions no. 12, 13, & 14.  
 On 1 June 2017 Mr. Johnson started a fast food/drop named Johnson Foods with each of goods of Rs.10,000 as Party Head in Debit. The following transactions occurred in his business in that month.

June 01	Sold goods on credit Rs.2,000
June 15	Goods purchased Rs. 17,000
June 20	Sold goods on credit Rs. 10,000
June 28	Cash received from staff Rs. 5,000
June 29	Goods returned to seller Rs. 1,000

- 12) Which transactions will be recorded in the journal proper of Mr. Johnson?
  - a) Sold goods to cash
  - b) Sold goods on credit
  - c) Goods returned to seller
  - d) Started with stock of goods
- 13) In which book the transactions occurred on June 15 and 20 will be recorded?
  - a) Purchase journal
  - b) Purchase return journal
  - c) Sales journal
  - d) Sales return journal
- 14) Mr. Johnson will prepare an adjusting goods
  - a) Debit side
  - b) Credit side
  - c) Debit transfer
  - d) Credit transfer

### Creative Questions:

- 1) Koko B. Choko "Student" kept the all of his business under double-entry system. On December 2017 the following transactions occurred in his business.
  - Dec. 1 Cash brought in Rs. 15,00,000 and the business is opened.
  - Dec. 12 Clothes purchased on credit Rs.25,00,000
  - Dec. 15 Furniture purchased on cash Rs. 50,000
  - Dec. 20 Salary paid to Manager Choko Rs. 1,000 (Debit on 100)
  - Dec. 20 Commission received on cash Rs. 5,000
  - Dec. 21 Goods purchased by cheque Rs. 1,20,000 at 2% discount
  - a) What is the total amount of goods purchased on December?
  - b) Determine the Debit and Credit of the above transactions.
  - c) Prepare Manager for the transaction of December 20.
- 2) Mr. Shalabhilash in his business "Good International" does not keep the books of accounts properly. On 1 January 2017 Total assets of his business was Rs. 5,00,000 and Liabilities Rs. 1,50,000. He newly created Rs. 80,000 in the business in this year. In that year he withdrew Rs. 60,000 from the business. On 31 December 2017 assets and liabilities of his business were

Cash is 1,25,000; Furniture is 1,10,000; Balance is 1,30,000; Stock of goods is 40,000. Bank Loan (Long-term) is 20,000.

- Determine the amount of opening capital of Ravi Enterprise.
- Determine the amount of closing capital of Ravi Enterprise.
- Determine the amount of profit or loss of Ravi Enterprise in 2017.

3. On 1 March 2017, **Arjun Balaram**, Enterprise started a business with Cash is 1,40,000; Machinery worth of Rs 50,000 and goods worth Rs 20,000. Other transactions of the month:

- March 03: Goods purchased from **Radhika Traders** Rs 20,000
- March 04: Sold inventory to **John** worth Rs 25,000
- March 07: Shop rent paid Rs 10,000
- March 10: Sold goods to **Jack** Rs 75,000
- March 17: Goods purchased on credit Rs 15,000
- March 19: Sold cash Rs 40,000
- March 21: Price purchased from **Arjun Traders** Rs 30,000
- March 24: Goods withdrawn from the business Rs 4,000 for own use.

- Calculate the amount of Trial Balance.
- Show the effect on accounting equation of the transactions that occurred on 1, 3, 7 & 10.
- Determine the effect on credit from the transactions that occurred on 6, 17, 19 & 24.

4. On 1 January, 2017, **Alpha Service Center** started a computer training centre with Cash Rs 5,10,000; Furniture worth Rs 75,000 and Bank Loan Rs 20,000. The following transactions are available in that month:

- January 02: Office rent Rs 10,000
- January 08: Paper purchased Rs 8,000
- January 11: Computer purchased Rs 10,000
- January 20: Wages paid Rs 5,000
- January 25: Training fees received by cheque Rs 15,000 (Cheque no 100)

- Calculate the amount of opening capital.
- Identify Debit: Credit of above transactions with reasons.
- Prepare a Credit voucher for the transaction January 25.

4. Mr. Khalid Malik has started a business named 'Pia Traders' on 1 July 2017 with cash £1,20,000 & Credit worth £ 75,000 other transactions of this month was as follows:

- July :
- 1 Furniture brought in cash £ 40,000
  - 3 Cash returned for sale goods on credit £ 25,000
  - 12 Goods purchased on cash £ 30,000
  - 13 An employee got appointed with salary of £ 15,000
  - 20 Cash £ 5,000 paid for buying necessary commodity for business.
  - 22 Sold by cheque £ 10,000
  - 30 Withdrawn by owner £ 5,750

- a) Calculate the total amount of these events which are not transactions
- b) Calculate Debit-Credit with reason of the transaction for the month of July of Pia Traders
- c) Calculate the amount of Equity at the end of July for Pia Traders

4. Miss. Bakshi is the owner of 'Pearson Store', following events occurred on January 2017

- January :
- 1 Goods sold for Cash £ 2,50,000
  - 10 An order received from a buyer £ 1,50,000
  - 11 Cash/paid for cash £ 10,000
  - 22 A bill prepared £ 15,000 to deliver goods as per order
  - 23 Cartage brought is additional capital as business £ 50,000
  - 30 Cash £ 1,50,000 received from post date

- a) Calculate the total amount of these events, which are not transactions
- b) These events are transactions, write them the relevant under relevant method.
- c) Calculate Debit & Credit with reason for the transactions of 'Pearson Store' under equation method

## Chapter Four

# Capital and Revenue Transactions

Everybody agrees that a business will continue for an indefinite period. The Returns of all the transactions of a concern are analysed to ascertain the result of all of its business operations and financial position of a particular period. Some transactions are such that benefits are followed for a longer period. Thinking about the concept transactions are divided into two types i.e. Capital and Revenue. The actual profit and loss and the condition of the financial matter depend largely on dividing the transactions properly. So the object of accounting is achieved through identifying the two types properly.



At the end of this chapter, we will be able to:

- Detect the difference between Capital and Revenue transactions
- Identifying the necessity of the difference between capital and revenue transactions
- Apply Capital and Revenue expenditure while preparing financial statement and calculating profit and loss.

### Concept of Capital and Revenue Transactions

All the transactions are divided into two types, Capital and Revenue. Capital transactions give more benefit than Revenue transactions over the period. Revenue transactions take place regularly while Capital is once or irregular. There are some similarities as follows in these two types of transactions with each other.

We have seen a transaction and now let us see its source, result or results and after things. Transactions can be categorised through following aspect



**Activity:** Considering the above situation divide the following transactions into two types:

- Taking loan from the bank worth 10,000 rupees
- Goods sold 5,000 rupees
- Purchased an Asset on credit worth 20,000 rupees
- Salary paid to the workers 1,000 rupees
- Sold old automobile for worth 75,000 rupees
- Interest received 10,000 from the deposited amount in bank

The transactions that give long term benefit (above than a year), the amount of which are bigger and not regular in occurrence are known as capital transactions. On the other hand transactions that takes place regularly, the amount of which is comparatively smaller and recurring in nature, are called Revenue Transactions.





### Capital Receipts and Income

The receipts which are irregular amount of which are bigger and the benefits of which are more than a year, are known as Capital Receipts. In financial capital, loan taken from bank, selling of fixed assets (land, furniture, machinery etc) are examples of Capital Receipts. However, Capital Receipts and Capital Income mean to be synonymous but the difference is often said. Capital Income is a part of Capital Receipts.

Capital Income does not come regularly and its example when come. For example, After using an old machinery for several years is sold for 10,000 rupees and the current book value of which is fixed at 5,000 rupees. Here the capitalistic income is 15,000 rupees (10,000-5,000). It is to be noted that capitalistic receipt 10,000 rupees is not the actual Capitalistic income. It is noted that if any cost incurred for the sale procedure is deducted for calculating capitalistic income.

**Activity 10:** Ramesh bought a piece of land for 2,00,000 rupees in 2013 and sold the same in 2017 for 4,00,000 rupees. Calculate the Capital Receipt and Capital Income.

### Capital Expenditure

All expenditure of non-current nature, the benefits of which are enjoyed by the business for a long time is called Capital Expenditure. Fixed asset (land, furniture, machinery, motorcar etc) purchase, other expenditure such as the purchase of fixed asset (import, freight, cartage, installation, repairs etc.) is known as Capitalistic Expenditure. It is to be remembered, here that the expenses that increase



the Bill on balance of cost will also be treated as Capital Expenditure. Example: If 10,000 is added to an existing old machinery in order to so it is workable condition with increase the life of the machinery. It can be said that the expense, which will occur further utility over the period, will belong to Capital Expenditure.

### Revenue Receipts and Income

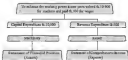
All recurring receipts by way of usual incomes or profit of business, which are used for meeting day-to-day expenses of the business, are called Revenue Receipts. For example sale proceeds of goods, interest on money deposited in bank, rent received, grant-in-aid received are examples of Revenue Receipts. However these two sound similar but there are differences between the two. Not all Revenue Receipts at a certain time is regarded to be treated as Revenue Income. For example, rent may not be 10,000 in 2017 but be 10,000 of which are adjusted for 2018. Here Revenue Receipt is 10,00,000 but Revenue Income is 0.00,000.

**Activity:** Give a wider presentation of the difference between Capital Receipts and Revenue Receipts.

### Revenue Payments/Expenses

The recurring expenses of an organisation are known the business and liability of which is incurred within short time is called revenue expense. Purchase of goods, rent paid, salary paid, purchase of stationary, advertisement expense to be an example of Revenue Expenses. Revenue Expenses do not acquire utility unless they contribute for the maintenance of asset. However, Revenue payments obligations-based capital but that's a major difference. Revenue Expense is only a part of revenue payments. Other persons accounting period's due and rent increasing period's advance are paid along with current profit expenses. The total amount paid together for current period and total accounting period is revenue payments, only the current period will be considered as revenue expense. If maintenance requirement fixed cost does not effect an income, it will be recorded as revenue expense.

There are some expenses that revenue in nature but benefit derived from the expense spread for a short time but for a long term of period. That also about the expense is mentioned here.



**Activity 1** Give a verbal presentation of the difference between Capital Expenditure and Revenue Expenditure.

### Necessary for differentiating between Capital and Revenue Transactions

A businessperson needs to assess the economic and financial condition after a certain period (generally a year). For this, at least three statements need to be prepared: Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position. From the Comprehensive Income Statement we come to know the amount of profit and loss, from the Changes in Equity Statement the amount of owner's interest in the business and from the Statement of Financial Position we will be able to know about the asset and liability of a business.

### The impact of Capital and Revenue Transactions

Profit and loss of a business is ascertained preparing Comprehensive Income Statement, only based on Capital and Revenue Income and Expenses. On the other hand, preparation of Statement of Financial Position based on Capital Receipts and Capital Expenses assets, liability and Owner's Equity are ascertained. If there two types of transactions exchange position in General statement, the actual profit/loss and asset liability and owner's equity can never be identified.

**Activity 2** What would result from a Capital Expense recorded as Revenue Expense?

### Deferred Revenue Expenditure

Expenditure of income where the benefit of which extends beyond the accounting period in which it is incurred, is generally written off over a number of years during which it is expected to benefit the business. The conversion portion of costs is spread over, which is carried forward to the subsequent years, is called Deferred Revenue Expenditure. Expenses of prior periods for making a new product, expenditure of a big amount for a special type of research, big expenditure on an advertisement campaign, transfer cost of a business are some of the examples of deferred revenue expenditure.

#### List of Capital and Revenue Accounts

Capital and Revenue Expenditure	Classification	Effect of Balance
1. Capital	Capital Asset	Transfer cost to Reserve for current year balance sheet is credit
1. Intangible/ Trading related Machinery	On	Impairment cost
1. Goodwill	On	Write cost to Reserve for current year and loss is debit.
1. Intangible	Revenue Expenditure	Expense

Capital and Revenue Expenditure	Classification	Effect of Balance
1. Intangible related	Capital Expenditure	On
4. Rent received of building	On	On
1. Rent paid from house to others	On	On
1. Commercial interest	On	On
1. Purchase of land	Capital Expenditure	Impairment of long term assets
10. Improvements of building	On	Impairment of long term asset
1. Building	On	Impairment of long term assets
1. Machinery	On	On
1. Research & develop new product	Deferred revenue	Transfer cost to reserve in next year
1. Transportation cost of Machine	On	On
1. Large amount spent for machine repair	On	Impairment of long term assets
10. Purchase of trademark	Capital Expenditure	Impairment of long term assets
1. Goodwill purchase	Machinery Expenditure	Impairment
10. Patent & rights	On	On
10. Rights on other asset	On	On
10. Other asset cost	On	On
11. Telephone & Internet bill	On	On
10. Advertising Expense	On	On
10. Research & develop cost	On	On
10. Regular salaries of staffs	On	On
10. Expenditure on Trading, Marketing Expenditure	On	On

**Activity:** Make an example list of other Capital & Revenue Expenditure.

### Illustration

Following information are extracted from the accounts book of Bangal Engineering Co. on 31 March 2017:

1. Rent Rs 750
2. Electric expense is Rs 7,000 (Rs 4,000 for new wiring)
3. Transportation is cost Rs 4,500 (Rs 1,000 for new second hand machine)
4. Drilling machine purchased Rs 4,000

**Requirements:**

What is the amount of capital & revenue expenditure?

**Solution,**

#### Capital Expenditure,

New wiring work cost	Rs 4,000
New drilling machine transport cost	Rs 1,000
Drilling machine	Rs 4,000
	<b>Rs 9,000</b>

#### Revenue Expenditure,

Rent	Rs 750
Electric expense	Rs 3,000
Transport cost	Rs 3,500
	<b>Rs 7,250</b>

## Exercise

### Multiple choice Questions

1. Which one is the Capital Expenditure?
  - a) Capital invested by the owner
  - b) Selling expenses for machine
  - c) Machine purchased
  - d) Daily expenses to operate business
2. If Capital expense is recorded as revenue expense then which calculation will be wrong?
  - a) Profit before tax
  - b) Dividend
  - c) Dividend
  - d) Net profit
3. Capital expenditure :-
  - i. Car purchased for sale
  - ii. Machine purchased for business use
  - iii. Road tax and insurance premium of delivery van.

Which are correct of the following?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

4. Sale of machine of machine manufacturing business

- |                    |                   |
|--------------------|-------------------|
| a) Capital receipt | b) Capital income |
| c) Revenue receipt | d) Revenue income |

5. Ramprakash export goods for his business. Import duty of goods is –

- |                            |                        |
|----------------------------|------------------------|
| a) Capital expenditure     | b) Revenue expenditure |
| c) Non-trading expenditure | d) Revenue income      |

6. Shalimar firm purchases a land for his business. He paid Rs. 1,000 the land is registered. This registration expense is

- |   |                                 |
|---|---------------------------------|
| a) Revenue expenditure                            | b) Capital expenditure          |
| c) It can be both capital and revenue expenditure | d) Deferred revenue expenditure |

7. In compliance of income statement we record

- Revenue Expenditure
- Revenue income
- Capital expenditure

Which one is correct of the following?

- |            |             |
|------------|-------------|
| a) i & ii  | b) ii & iii |
| c) i & iii | d) i & ii   |

8. In statement of financial position we record

- Capital receipt
- Revenue expenditure
- Deferred Revenue expenditure

Which one is correct of the following?

- |             |                |
|-------------|----------------|
| a) i & ii   | b) i & iii     |
| c) ii & iii | d) i, ii & iii |

9. What type of transaction is Freight in?

- |                     |              |
|---------------------|--------------|
| a) Revenue          | b) Capital   |
| c) Deferred revenue | d) Operating |

10. Deferred Revenue expenditure :-

- Fixed Rs. 1,00,000 for advertising firm for publicity of goods for 3 years
- Fixed cost maintenance for 3 months Rs. 15,000
- Insurance transfer cost Rs.20,000

Which one is correct of the following?

- |             |                |
|-------------|----------------|
| a) i & ii   | b) ii & iii    |
| c) ii & iii | d) i, ii & iii |

Considering the following information answer the questions no. 10, 11 & 12:  
On 1 January 2017 Mr. Fisher-Vincent purchased a machinery for his business valued at 40,000 and payable on installment at 5,500. He sold this machinery for 25,000 in 2021. At the time remaining price of this machinery was 25,000 after deducting depreciation.

10. Amount spent 45,500 of Fisher-Vincent considered as
  - a. Capital receipt
  - b. Revenue expenditure
  - c. Deferred Revenue expenditure
  - d. Capital expenditure
11. What was the total amount of depreciation charged in 4 years?
  - a) 15,000
  - b) 16,000
  - c) 17,000
  - d) 18,000
12. The difference between selling price and present book value of machinery is called
  - a) Capital income
  - b) Revenue income
  - c) Revenue receipt
  - d) Capital receipt

### Creative Questions

1. The following transactions are from the business of 'Taurus Enterprise' in 2017

Description of Transactions	Amount (Taka)
Capital received from shareholders	5,00,000
Machinery purchased	1,50,000
Loan taken from Bank	2,00,000
Goods purchased	10,00,000
Employee salary paid	2,00,000
Electricity and telephone bill paid	12,000
Depreciation on machinery	15,000
Revenue from investments	10,000
Expenses (which includes 5,000 for 2018)	10,000
Commission received (which includes 5,000 for 2018)	50,000
Dividend	20,00,000
Withdrawal for owner for personal	5,000

- a) Calculate the amount of Capital receipt.
- b) Calculate the total amount of Revenue income & expenditure and revenue receipt & payment.

a) Find out the amount of Equity of 'Dorham Enterprise' at the end of year?

2. On April, 2017 The following business transactions occurred in 'Rishi, Menon'

- April 01 Business transfer expense Rs. 25,000 from (Munimund to Molephal)
- April 02 Inventory purchased Rs. 2,000
- April 04 New machine purchased Rs. 1,00,000
- April 05 Garage-expense for newly purchased machine Rs. 1,500
- April 07 New machine maintenance-expense Rs. 1,000
- April 09 Repairing-expense of old computer Rs. 3,000
- April 12 New luxury watch purchased for office use Rs. 40,000
- April 14 Research expenses for new goods Rs. 10,000

- a) Calculate the amount of deferred revenue expenditures?
- b) Calculate the amount of capital expenditures & revenue expenditures
- c) Calculate the amount of capital receipt and capital income, if the machine bought on April 4 sold for Rs. 1,05,000

3. Mr Nayan operates a firm named 'Clarke & Son' situated in Delhi on January 2017. The transactions of the business is mentioned below:

- Inventory purchased for Rs. 40,000
- Investment materials bought for revenue Rs. 20,000
- Holiday expense Rs. 2,000
- Repairing expense of Delivery van Rs. 1,000
- Subsidized for arranging a holiday party to workers Rs. 25,000
- New computer purchased for old colleague Rs. 8,000
- Employee's salary paid Rs. 5,000
- Received from customer Rs. 15,000 for previous service.
- Tax paid Rs. 50,000
- Asset-bought Rs. 15,000

- a) What is the total amount of revenue income.
- b) What is the total amount of revenue expenditures.
- c) What is the total amount of capital expenditures.



4 The following transactions are of 'Rita & Ron' business on June 2017

Capital brought into the business	Rs.	2,20,000
Goods purchased	Rs.	1,20,000
Debit note received	Rs.	5,700
Electrical machines purchased	Rs.	4,20,000
Interest on investment received (20% for 30 days)	Rs.	4,000
Profit on sale of furniture	Rs.	2,400
Refrigerator bought for business	Rs.	15,000
Tax on shop paid	Rs.	2,000
Bank loan taken	Rs.	1,20,000
Goods sold	Rs.	20,000
Insurance premium	Rs.	1,000
Agency/Share purchase (25% for last year)	Rs.	40,000
Sale of old computer	Rs.	10,000
Interest on loan paid	Rs.	5,000

- Calculate the amount of capital expenditure.
- Calculate the total amount of revenue income & expenditure.
- Calculate the total amount of capital income and revenue receipt.

5 Two friends Peter & Supriya started a shop named 'Agave Departmental Store'. The following transactions are available in their business:

May-04	Goods purchased on credit Rs 30,000
May-07	Debit note sent of store Rs 1,00,000
May-10	Carriage expense Rs 1,500
May-11	Goods sold Rs 12,000
May-13	Debit note received Rs 700
May-14	Goods sold on credit Rs 22,000
May-16	A shop purchased for shop Rs 45,000
May-17	Electricity bill paid Rs 1,200
May-21	Commission received Rs 2,000
May-24	Debit note received Rs 2,000

- Determine the total amount of capital transactions from the above information.
- Determine the total amount of revenue expenditure of their shop.
- Determine the total amount of revenue income of their shop.

## Chapter Five

### Accounts

Financial transactions change the financial position of the business. Cash received as well as cash payment is done through transactions. For some transactions, assets or expenses may increase and liabilities or owner's equity assets or liabilities may also increase and decrease by transaction. Income, Expense, Asset and Liability are not a particular type, there are different types of many such items in business organizations. In a particular individual the account, the expense, the asset or the liability that is affected by transaction are recorded as per double entry system and it indicates the gain or net amount of that particular item. Accounts are prepared to know the continuous change and the net amount of each item.

T-Account							
Account Title							
Debit		Account to credit to				Credit	
Date	Particulars	LF	Total	Date	Particulars	LF	Total
Closing Balance Sheet							
Asset's Title				Account to credit to			
Debit		Credit		Debit		Credit	
Date	Particulars	LF	Total	Date	Particulars	LF	Total

Ending this chapter we will be able to:

- explain the concept and features of accounts
- keep accounts using different types of table (T-Account & Running balance - table)
- classify accounts as per Accounting Equation
- record Debit and Credit in related accounts as per Double Entry System

### Concept of Accounting:

The main objective of Accounting is to calculate financial result and financial position. It is required to record the transactions in disciplined & proper way to achieve this objective. Because of transactions - companies start/earn - decrease happen to assets, liabilities, incomes, expenses and to equity. It's needed to record companies increase - decrease and to know the net increase of each asset in an interval of specific time.

### Event:

While trading on March 2017 milk goods of 15 000 sold old furniture for 10 000 and bank loan from bank of 5 000. He spent 4 000 for house rent, 6 000 for gas, 6 000 for electricity bill of 2 000 for transportation, and 6 000 for salary of employees.

All cash receipts and all cash payments are mentioned above of Mr. Shaper for the month March 2017. How much cash balance will have at hand? To know the balance following way can be applied:-

$$\text{Total Receipts} = (15\,000 + 10\,000 + 5\,000) = \text{Rs. } 30\,000$$

$$\text{Total Payments} = (4\,000 + 6\,000 + 6\,000 + 2\,000 + 6\,000 + 6\,000) = \text{Rs. } 30\,000$$

$$\text{Balance} = (30\,000 - 30\,000) = \text{Rs. } 0$$

Accounting follows a particular table to present the above information:-

Debit		Credit Account	
	Rs.		Rs.
Sales	15 000	House rent	4 000
Sale of Furniture	10 000	Gas & electricity bill	6 000
Bank loan	5 000	Transportation	2 000
		Salaries	6 000
		Balance-(Difference)	0
	30,000		30,000

The type of table is kept for each type of assets, liabilities, revenue or income, expenses & equity of business department separately and the balance of each one is calculated.

Activity: How is the above table of accounts book-like and what spread sheet do you use accounting?

Account is made a table or statement where the changes & position of each financial item are reflected. Credit Account, Purchase Account, Sales Account, Purchase Account, Sales Account, Salary Account, Rent Account etc.

### Table of Accounts

Two types of account table is used in Accounting-

#### T-Tally

Account's Title

Debit				Credit			
Date	Particulars	J/P	Total	Date	Particulars	J/P	Total

#### Posting Balance Table

Account's Title

Account's credit:-

Date	Particulars	J/P	Debit Total	Credit Total	Balance	
					Debit	Credit

#### Features of T-Tally

- There will have total of account
- The table will be divided into two parts Debit & Credit
- Four columns table with total right column
- Balance of account (difference between total Debit & total Credit) should be calculated after an interval of specific time period
- Should have a side number for each account

#### Features of Posting Balance Table

- There will be a total of account
- Should have a side number for each account
- Four columns table for date, description & journal entry, J/P
- Total for columns for account (Total)
- Debit & Credit account column related side by side
- Balance of account is calculated after incorporating of transaction

**Application:** Identify which are the following are ledger chart from below.

H/W: Balancing of account is described thoroughly in Ledger chapter

### Classification of Accounts

We can classify account into two majorly sub-categories Accounting Equation (A=L+E)

Assets	=	Liabilities	+	Equity
--------	---	-------------	---	--------

Assets	=	Liabilities	+	Capital brought in by the owner + Revenues - Expenses - Withdrawn by the owner
--------	---	-------------	---	--

By observing the above equation it possible to classify the Accounts into five types.

1 Assets      2 Liabilities      3 Equity      4 Revenues      5 Expenses

### Relation of Transactions with Accounts

1	Capital A/c	Equity	Money, goods, assets and other resources provided by the owner for the business entered in Capital Account.
2	Drawings A/c	Equity	Money, goods, assets and other resources taken away by the owner from the business entered in Drawings Account.
3	Cash A/c	Assets	Unimpaired and undepreciated money for transactions entered in Cash Account.
4	Bank A/c	Assets	Impaired interest of bank systems & decrease by the bank charges entered in Bank Account.
5	Purchase A/c	Expenses	Goods purchased (anything, anything for which we make cheques, bank drafts & bill and Goods notes, destroyed, and if destroyed entered in Purchase Account).
6	Sales A/c	Revenues	Goods sold (anything brought the sold in cash, cheques, bank drafts & bill entered in Sales Account).
7	Revenues	Assets	Chair, table, Account, Revenues, like tables and other fixed assets for & are entered in Revenues Account.
8	Fixed & Intangible	Assets	Patents, machine, painting, Publishing, copyright and are entered in Fixed & Intangible Account.
9	Income statement A/c	Expenses	Single goods entered and stored in Purchase return/ Sales returns Account.
10	Return statement A/c	Revenues	Bill goods returned received in Sales return/ Return Goods Account.
11	Debitors A/c	Liabilities	Goods purchased on account, goods returned out, paid a creditor, Debitors received and acceptance of bill entered in Debitors Account.
12	Creditors A/c	Assets	Credit sold on account goods returned in, received, then debited, Debitors received and acceptance of bill entered in Creditors Account.
13	Bill Payable A/c	Liabilities	Goods returned the bill acceptance to creditors, bill paid and acceptance bill entered in Bill payable Account.
14	Bill Receivable A/c	Assets	Bill through bill bill acceptance by debtors, bill received and Debitors received in Bills Receivable Account.
15	Stock of goods A/c	Assets & Expenses	At the end of accounting period various of useful goods is determined, which is among stock of goods for the start and opening stock of goods for the 1 <sup>st</sup> day of new accounting period.

16.	Land A/c	Liability	Costs when not otherwise of land for business that includes an expenditure spent to land transfer from an individual or organization can be added. Like-School when A/c is Bank Cash A/c. If business provides land then paid A/c should be.
17.	Investment A/c	Assets	If the life saving of the business should be taken, perhaps contribute, your head too. The debt is long, then and only if charged in Investment A/c.
18.	Salary A/c	Expenses	Salary paid to due to employee should be Salary Account. No account should be opened under the name of employee.
19.	Salvage A/c	Expenses	Parties of any job paid with the job, the cost, to repair the administrative services of business should be Salvage Account.
20.	Real Estate A/c	Expenses	Salary, office, directors, & other places not paid & that should be Real Account. If business reports, separate and account can be opened for each type & a office cost account, being the account, all these accounts.
21.	Storage space A/c	Expenses	Storage should be Storage account. Accounts are opened to record goods being in warehouse, not expense in the form of buying and selling goods separately.
22.	Interest A/c	Expenses & Revenue	Interest Account is opened to record interest & interest not recorded & interest account, Interest or Revenue account on account, on drawings, interest paid on bank deposit and on other bank paid or payable interest on interest, on how to bank, interest, accounts are opened.
23.	Advertising A/c	Expenses	Advertising Account open for any kind of promotion & publicity expense of the business. There, Interest, sales, business, for strategies of profit is included.
24.	Real Estate A/c	Expenses	This advertisement is opened for all other costs, including on buying other means. It can be purchased from the purchase the business account & account, advertisements.
25.	Expenses A/c	Expenses & Revenue	Allowing some other for and using the available account to debits and credits from other company, the cost account to debits should be Expense Account. Allowing & reporting should be provided in two separate accounts separately, account should be Expense Account, account.
26.	Depreciation A/c	Expenses	The value of fixed assets decreases for long, with the value of your income and expenses, Asset.
27.	Expenses due to Government Income A/c	Liability & Assets	Expenses accounts are opened for various expense due and revenue account (asset). For example, interest due amount, interest due on bank account, accounts & accounts, interest, interest, accounts, accounts.

32	Popul Expense & Admin Expense	Debit & Credit	Popul expense Admin expense accounts are opened to record major costs incurred prior before getting actual and become indirect before providing service. For example, general business expense, travel and interest, others specifically business except, indirect into major account. As Admin expense is considered indirect expense.
33	Appl Interest	Expense	Interest related with Deposits, Withdraw, Lending, other related to it is generally recorded as Appl Interest.
34	Other Expenses Admin	Debit	Other Expenses Admin is record to record various & life of company, All phenomena, provide etc & other expense related with services.
35	Other Popul Expense	Debit	The price of public capital securities paper weight etc is continuously small but provide services for a long time. Other Expense General is offered for these purposes.

6) As like debiting important accounts are shown credit where debit

**Group Work:** Prepare a list of assets, liability, equity, revenue and expense account divided into several groups.

## Debit and Credit

We have observed Debit and Credit these two words as both "T" and T-Forming Balance table. Almost not of possible to prepare without identifying debit and credit. In part of this lesson is explained with the principle of identifying debit and credit of different types of accounts.

We have mentioned the left side of the account debit and the right side credit. These two words give direction to accounts. Debit word means left and Credit word means right. That's why left side of the account is Debit and right side is Credit. it is a extension of Accounting.

We have found in Double Entry System diagram that each transaction brings two equal opposite changes. One change is Debit and other one is Credit.

At least two accounts are affected by each transaction, one debit side effect on the other's credit. Some rule of two accounts will not be affected by transaction. Money will not debit & debit or credit & credit.

Both side of the Accounting Equation will be always equal after each transaction and total debit amount of accounts will be equal to total credit amount of accounts. The two theory help in ascertain debit & credit of accounts.

<b>A</b>	=	<b>L</b>	+	<b>E</b>
<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Equity</b>
<b>Total Debit</b>	=	<b>Total Credit</b>		
<b>Assets</b> <b>Debit</b>	=	<b>Liabilities</b> <b>Credit</b>	=	<b>Equity</b> <b>Credit</b>

Owner's equity increases by bringing in capital funds or any other assets & stored resources and/or after deduct owner's equity decreases owner's drawings (back or any other assets) & expenses incurred. Additionally here, cash or any other assets brought in or taken out by owner should be recorded in accounts separately as the detailed amount of these two can be known easily.

### Summary to Calculate Debit and Credit

<b>Debit</b>	<b>Credit</b>
<ul style="list-style-type: none"> <li>• Assets increase</li> <li>• Liabilities decrease</li> <li>• Equity decrease</li> <li>• Revenue decrease</li> <li>• Expense increase</li> </ul>	<ul style="list-style-type: none"> <li>• Assets decrease</li> <li>• Liabilities increase</li> <li>• Equity increase</li> <li>• Revenue increase</li> <li>• Expense decrease</li> </ul>

Effect of transactions on accounts is shown with examples-

#### Normal business with cash \$50,000

Both cash (assets) and equity increased by the transaction

Cash account (Assets increase)	Debit \$ 50,000
Capital account (Equity increase)	Credit \$ 50,000

#### Partners purchased \$10,000

Partners increased & cash decreased by the transaction

Partners account (Assets increase)	Debit \$ 10,000
Cash account (Assets decrease)	Credit \$ 10,000

#### Owner took amount for spending \$2,000

Cash account (Assets increase)	Debit \$ 2,000
Cash account (Assets decrease)	Credit \$ 2,000



**Goods sold for cash @ 12,000**

Cash account (Assets increased)	Debit	Rs. 12,000
---------------------------------	-------	------------

Sales account (Revenue increased)	Credit	Rs. 12,000
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**Cash withdrawn @ 1,000 for the owner**

Drawings account (Equity decreased)	Debit	Rs. 1,000
-------------------------------------	-------	-----------

Cash account (Assets decreased)	Credit	Rs. 1,000
---------------------------------	--------	-----------

**Activity:** Using the following data, determine (debit & credit) accounting account classification with reason of each transaction.

1. The owner brought in furniture personally @ 5,000
2. Goods purchased from Retail Traders @ 7,000
3. Goods sold on credit @ 9,000
4. Goods returned to Retail Traders @ 1,000
5. Sold-out goods on credit returned to @ 2,000
6. Prepaid rent @ 1,000
7. Withdrawal from bank for owner @ 2,000
8. Loan has taken from Bank @ 4,000
9. Paid to Retail Traders @ 5,000
10. Received from debtors @ 3,000

Sl. No.	Party / Account	Classification of account	Total	Reason
1	Furniture account Dr	Assets	5000	Assets increased
	Cash account Cr	Equity	5000	Equity increased

(Any transaction is presented in the table is self-explanatory)

**Exercise****Multiple Choice Questions**

1. Total number of columns in 'T' table is

- a) 1                      b) 2                      c) 3                      d) 10

2. The correct equation may be -

- a) Assets = Liabilities + Owner's Equity  
 b) Assets - Owner's Equity = Liabilities  
 c) Assets + Owner's Equity = Liabilities

Which one is correct of the following?

- a) 1 & c)              b) 1 & b)              c) 1 & a)              d) 1 & d) c)

- 7 The difference between total account of debit and credit of an account is called –  
 (a) Profit (b) Loss (c) Liability (d) Balance
- 8 'Debit' – what type of account?  
 (a) Asset (b) Liability (c) Owner's equity (d) Revenue
- 9 Name types of accounts are –  
 (a) Salary account (b) Sales account (c) Adjustment account  
 Which one is correct of the following?  
 (a) 1 & 2 (b) 1 & 3 (c) 1 & 4 (d) 1, 2 & 3
- 10 Concerned account related with transaction is credited when  
 (a) Asset increases (b) Equity increases (c) Expense decreases  
 Which one is correct of the following?  
 (a) 1 & 2 (b) 1 & 3 (c) 2 & 3 (d) 1 & 4
- 11 Which one is prepared for knowing continuous change and net amount?  
 (a) Account (b) Journal (c) Ledger (d) Trial balance
- 12 If Sales, Defectives or Good brought using the old money of Pakistan, which account will be kept?  
 (a) Capital (b) Damages (c) Investments (d) Loss
- 13 Account balance is calculated in money/balance format –  
 (a) At the end of the week (b) At the end of the month  
 (c) After recording of each transaction (d) At the end of the day
- 14 How many types of accounts are there under accounting – capital?  
 (a) 4 (b) 5 (c) 6 (d) 7
- 15 'Which transaction will increase Equity?'  
 (a) Withdrawal from bank for cash Rs. 1,000 (b) Furniture purchased Rs. 1,000  
 (c) Good goods on credit Rs. 1,000 (d) Bought goods for cash Rs. 1,000  
 Which one is correct of the following?  
 (a) 1 & 2 (b) 4 & 3 (c) 1 & 3 (d) 1 & 4

Considering the following information, answer the questions no. 11 to 13.  
On 11 May 2017 the following accounts/balances are available in Mureed Traders.

Partners account is 10,000, Cash account is 10,000, Purchase account is 10,000;  
Sales account is 10,000, Capital account is 40,000 and Drawings account is 5,000

11. What will be the total amount of assets of Mureed Traders?

- (a) 6,00,000 (b) 6,40,000 (c) 6,45,000 (d) 6,75,000

12. What will be the amount of Owner's equity?

- (a) 6,35,000 (b) 6,50,000 (c) 6,45,000 (d) 6,70,000

Considering the following information, answer the questions no. 14 to 15.  
On 1 January 2017 Mr. Javed started a business named Javed Traders, with  
cash is 1,00,000. Fixed Asset worth is 20,000 and Inventory is 25,000.  
On 14 January salary paid to employees is 5,000 per week.

14. What will be amount of opening capital of Javed Traders?

- (a) 6,35,000 (b) 6,20,000 (c) 6,30,000 (d) 6,55,000

15. What is transaction of 5,000 salary accounting system

- (i) 5,000 salary will decrease (c) 5,000 salary will increase (a) 5,000 salary will decrease

Which one is correct of the following?

- (a) i & ii (b) i & iii (c) i & iii (d) i, ii & iii

### Creative Questions

1. Following accounts/balances are of 'Rakesh Enterprises' on 31 December 2017

Capital	6,10,000	Partners	6,10,000
Mortgage loan	6,10,000	Accounts Payable	6,40,000
Prepaid rent	6,20,000	Accounts Receivable	6,40,000
Interest fee	6,10,000	Interest Received	6,10,000
Salaries due	6,10,000	Machine	6,10,000
Life insurance Premium	6,10,000	Bank A/C	6,10,000
Patentable	6,10,000	Cash A/C	6,20,000

Commission Received/A Advance is 1,000 Goodwill is 11,000 Unearned Sub-Rent is 1,000 Debt Provided is 1,000 Inventory due is 5,000

- (a) Determine the total amount of Drawings from the mentioned information.
- (b) Show from credit side in the total amount of credit of Closing Balance.
- (c) Calculate total amount of liabilities from mentioned accounts.

2. Mr. Agra started a business named 'Computer & Copy' on 1 January 2017 with capital Rs. 1,70,000 & 2 photography students with Rs. 70,000 each. Other transactions of business occurred during the month were:-

- Jan. 2** Open a bank account depositing Rs. 50,000
- 4 To Rs. 15,000 paid to supplier electric meter to shop
  - 7 Purchase of paper Rs. 2,000 for computer & photography
  - 8 Prepaid rent Rs. 2,000
  - 10 To Rs. 2,000 Supplier distributing ledger account for the purchase of shop
  - 14 Cash Rs. 1,000 received for computer, photography etc. school
  - 16 Computer Rs. 5,000 issued for printing shop rent
- (a) Calculate the amount of opening capital from the above information.
  - (b) Show the classification of assets/liabilities in the statement dated January 1, 2017.
  - (c) Determine Debit & Credit of the transaction dated January 4, 2017.

3. Two transactions of Mr. Ramesh Patel, who holder of Red & Green during March 2017

- March 2** 1. Drawing amount bought for Rs. 4,00,000.
- 4 New Goods bought for Rs. 10,000
  - 6 Cheque received Rs. 1,00,000 as realization.
  - 12 Withdrawal from Bank Rs. 1,50,000
  - 15 Drawing amount realized Rs. 1,20,000 in Realization
  - 20 Cash sent Rs. 12,000 post-free 100-rupee note
  - 25 10 kg cement returned from Bank return
  - 28 A Motor Van bought for Rs. 1,20,000 for bringing material Red & Green
- (a) Calculate the amount of Depreciation amount from the above information.
  - (b) Determine the Debit & Credit of transactions occurred from March 2 to 12 accounting.
  - (c) Determine Debit & Credit with respect of transactions occurred from March 15 to 28

## Chapter 5th

### Journal

After the classification of financial and non-financial events, it is necessary to record the financial transactions under heads of accounts identifying Debit and Credit parties. Transactions have differences in nature, the classification of journal is made considering the nature & features of transactions. A transaction should be recorded in each type of journal, where it is appropriate. If the nature of transaction is partial during recording, the acceptability of recorded accounts remains uncertain.



Classification of Journal

At the end of this chapter, we will be able to:

- identify need and importance of journal in case of opening account
- classify journal
- provide general journal entry
- prepare purchase and sales journal through correct, purchase return and sales return journal through debit and credit note

## Concept of Journal

After the transactions occur, we have to record the detail of that, as quickly as possible. The detail of the transaction is recorded first in journal primarily. Analyzing the debit and credit side of a transaction is a tedious chronologically with explanation in a journal. Later on the journal is transfer the subsidiary book for the principal book Ledger. Therefore, the journal is called the primary book of accounts.

Keeping of journal is not compulsory but for the benefit of keeping records, it is required to be kept. If transactions are kept in a journal, the chance of keeping mistakes of errors is less significantly.

**Activity:** Tell the features of journal based on the above discussion.

## Importance of Journal

The book of accounts of an enterprise must be clear and lucid. The financial result and the financial position of business are calculated conveniently. For achieving these principal objectives of accounting, the role of journal is significant.

**Recording transactions.** Many transactions take place in an enterprise. Transferring these immediately to the ledger may not be possible. The transactions are recorded in a journal then transferring them later on to a ledger become easy.

**Knowing the total number and quantity of transactions.** It is not possible that ledgers know how many transactions took place in a certain day, in a week or in a month. Since transactions are recorded chronologically in a journal on a certain date, week or month the total number of transactions can be maintained. It is also possible to know the total amount of transactions in different times.

**Application of Double Entry.** In double entry system transactions are recorded into concerned Debit & Credit accounts together. So, the application of double entry can be understood from journal.

**Explanation of Transactions.** If any business event from transaction, its explanation can be obtained from journal. Because after recording the transaction into the journal, its reason and explanation are also provided.

**Without error & faults** If transactions are recorded as journal before recording to ledger, the faults and long-created from ledger become less likely to occur.

**Future Reference** In journal, transactions are arranged systematically in a chronological manner. In future, it can be used as proof or evidence.

**Helping with principal books** Since journal acts as a subsidiary book to ledger, in preparation of ledger from transactions, there will be less

### Specimen of General Journal:

Date	Particulars/Account Name & Explanation	L. F	Debit Rupee	Credit Rupee
	Total		₹	₹

**Journal:** During the above while the analysis is all the transactions of the

**Date** In this column, the date when transaction occurs i.e. year, month and day must be mentioned. Journal must be kept continuously according to the occurrence of the transaction chronologically as they take place.

**Particulars** In this column, the debit & credit accounts/parties related to the transactions are mentioned. Always the debit party is first and then the credit party are recorded. Besides a brief explanation is also provided.

**Ledger Folio** Debit and credit accounts related to transaction will be set out later permanently in Ledger the page number of which is mentioned in this Column. So the transactions can easily be identified from the ledger.

**Debit and Credit** The amount of Debit and Credit is posted in debit and credit columns respectively. Each column should be equal in terms of amount. Journal is recorded in separate pages the total of which must be maintained at both the columns and thereafter in the next page must be written in separate columns. After recording each journal entry should be shown in the description column.

### Classification of Journal

Among the transactions of business transaction nature and characteristics of different are met. Transactions are to be recorded according to their nature. Classification of play a subsidiary role in keeping ledger accounts and in preparing financial report. The journals are classified under the following manner.



### Special Journal

Among all the transactions taking place in a business, are recorded in a special journal.

1. **Purchase Journal:** All the goods purchased on credit for business are recorded in this journal.
2. **Sales Journal:** All the credit goods sales of a business are recorded in this journal.
3. **Purchase Return Journal:** Goods purchased on credit but returned are recorded in this journal.
4. **Sales Return Journal:** Goods sold on credit but returned are recorded in this journal.
5. **Cash Receipt Journal:** The transactions that include cash receipts (including goods sold for cash) are recorded in cash receipt journal.
6. **Cash Payment Journal:** The transactions that include cash payments (including goods purchased) are recorded in cash payment journal.

### Factors to be considered for General Journal

According to double entry system each financial transaction includes at least two parties. One party is debit and the other one is credit. We identify both the parties with journal. A transaction should always consist of a debit and credit is not applicable. Based on transactions there can be more than one debit or credit items. But it should be verified specially that the total amount of debit should be equal to the total amount of credit. Here, it is to be mentioned that only identifying two parties is not thereby enough because the proper title of each head of accounts is also important. If it is wrongly done, the real financial



prices of the business will never be disclosed. In the accounts chapter for class related to concerned accounts have been discussed.

(a) The accounts will be opened under the following, mutually, chapter 10:

Transactions	Journal Entry	
Credit sold	Debit Account	Debit
	Sales Account	Credit
Cheque issued for purchase	Purchase Account	Debit
	Bank Account	Credit

(b) If none of the sales & buyer respectively for goods purchase & goods sold are mentioned, it will be considered as credit transaction. But besides sales-cash cheques, bank and money received or it can be purchased as credit.

Transactions	Journal Entry	
Purchase from bank/Debit	Purchase Account	Debit
	Credit from Bank/Debit	Credit
Credit under Credit Sale	Cash Account	Debit
	Sales Account	Credit

(c) Goods bought & sold on credit is mentioned but the name of sales & buyer is not mentioned then for purchase Creditors account and for sale Debtors account will be recorded.

Transactions	Journal Entry	
Credit purchase on credit	Purchase Account	Debit
	Creditors Account	Credit
Credit sale on credit	Debit Account	Debit
	Sales Account	Credit

(d) For purchase returned on credit: consider that the purchase & sale had made earlier on credit.

Transactions	Journal Entry	
Return issued	Debit Return Account	Debit
	Purchase Return Account	Credit
Returned goods received	Creditors Account	Debit
	Purchase Return Account	Credit

(e) Buying & selling assets like stocks, new old, purchase, sale etc. can not be good. Rather Purchase purchase account, Sell Services sales account, New office equipment account etc. should account will be opened.

Transactions	Journal Entry	
Purchase of new Furniture	Furniture Account	Debit
	Cash Account	Credit
Sold old Machine	Cash Account	Debit
	Machinery Account	Credit

(2) There will be no separate entry for sale of individual or business for income & expense jointly. Through the income is earned and expense is debited

Transaction	Journal Entry	
Salary paid to employees joint	Salary Account	Debit
	Cash Account	Credit
Salary paid to one from other businesses	Salary Account	Debit
	Salary Due Account	Credit
Commissions received from Topo Taden	Commissions Receivable A/C	Debit
	Commissions Revenue A/C	Credit

(3) Amount of the goods decrease because of goods is used personally or for business, distributed freely for advertisement, sales, disposed etc., so for all these situation Purchase account will be credited

Transaction	Journal Entry	
Goods withdrawn for personal use	Drawings Account	Debit
	Purchase Account	Credit
Goods sales for drawing	Account	Debit
	Purchase Account	Credit

(4) Withdrawal from business money owner's draw up, Withdrawal from bank is considered the business. If it is withdrawn the money will be recorded as – Drawings account.

Transaction	Journal Entry	
Withdrawal from business	Drawings Account	Debit
	Cash Account	Credit
W drawings from bank	Cash Account	Debit
	Bank Account	Credit

(5) Goods, cash, any asset withdrawn disposed will be recorded as business loss account.

Transaction	Journal Entry	
Money taken from cash/bank	Money Loss Account	Debit
	Cash/Bank Account	Credit
Goods disposed by fire	Money Loss / Loss on fire A/C	Debit
	Purchase Account	Credit

(i) Bank account will be always affected by bank interest allowed or charged and charges of bank.

Transaction	Journal Entry	
Interest allowed by bank	Bank Account	Debit
	Bank Interest Account	Credit
Bank charged for expenses	Bank Charge account	Debit
	Bank Account	Credit

(ii) If the value of the fixed assets decreases because of using or for any other reason, 'Accumulated Depreciation account - respective asset' opened account will be credited at place of being credit for respective asset account.

Transaction	Journal Entry	
Depreciation charged on Equipment	Depreciation Account	Debit
	Accumulated Depreciation (Equipment) A/c	Credit

(iii) Cheque received from any source, Bank account will be debited. Because cheque or open cheque is never handed over to organisation, against Paper cheque is provided.

Transaction	Journal Entry	
Cheque received from Right for goods sold	Bank Account	Debit
	Sales Account	Credit
Cheque received from debtor, deposited into bank immediately	Bank Account	Debit
	Debtors Account	Credit

this like account get from owner or provided to owner Capital account credit and Drawings account debit respectively.

Transaction	Journal Entry	
Salary of the employee paid by the owner personally	Salary Account	Debit
	Capital Account	Credit
Owner's drawing expenses paid from business	Drawings Account	Debit
	Cash Account	Credit

(iv) Debit and credit at settlement of accounts and payable respectively. Debit is credits account will be affected.

Transaction	Journal Entry		
Tx 5,000 paid to bill settlement of A/C to Creditors	Creditors Account	Debit	5,000
	Debit noted A/C	Credit	5,000
	Cash Account	Credit	5,000
Tx 1,000 received from Debtors on bill settlement of A/C 1,000	Cash Account	Debit	1,000
	Debit allowed Account	Debit	50
	Debtors Account	Credit	7,000



Balance of Revenue Account & expenditure accounts in 2017 of a business were: Furniture & Fixtures & 10,000, Sales & 10,000, Salaries & 15,000, & Rent & 1,000.

Date	Account Title & Explanation	L. F	Debit Total	Credit Total
2017 Dec. 31	<div> <div> Sales Account Revenue Statement </div> <div> Debit Credit </div> </div> <div> (Sales account income closed by transferring to Income Statement) </div>		10,000	10,000
	<div> <div> Income Statement  Furniture Account  Salaries Account  Rent Account </div> <div> Debit Credit Credit Credit </div> </div> <div> (Balance of Furniture Account, Salaries Account and Rent Account closed by transferring to Income Statement) </div>		16,000	16,000 10,000 1,000

**4. Opening Journal:** Business continuation is a continuous process. Assets, liabilities and owner's equity of the last year are brought to/representing of the new year, for which opening journal is made.

On 31 December 2016, Cash Account & 70,000, Furniture Account & 10,000, Salaries Account & 15,000, Creditors Account & 10,000 and Capital Account & 10,000.

Date	Particulars / Account Title & Explanation	L. F	Debit Total	Credit Total
2017 Jan. 01	<div> <div> Cash Account Furniture Account Salaries Account Creditors Account Capital Account </div> <div> Debit Debit Debit Credit Credit </div> </div> <div> (Business began in 2017 with assets, liabilities &amp; Equity of 2016) </div>		70,000 10,000 15,000	10,000 10,000

**5. Other Journal:** Besides transactions of special journal & four types of transactions recorded in journal proper, there are other transactions also such as sales by bill of exchange, discount allowed & discount received, transfers of goods etc. These transactions also record in journal proper.

## Discount & Classification of Discount

Generally, when goods are purchased at a lower price than the predetermined price, the price difference is known as Discount. This type of discount is known as trade discount.



**Trade Discount:** Seller determines the selling price of goods. When seller sells his goods at a lower price than the predetermined selling price, it is known as Trade discount. This discount is also known as seller and purchase discount for buyer. Whether buyer or seller keeps the discount as their account.

**Cash Discount:** Buying & Selling business takes place frequently on credit. The rebate that is provided by seller to buyer to settle the debt between them quickly is Cash Discount. This discount is discount paid & received for seller & discount received for buyer. Both record the discount either book of account.

**Activity:** Compare Trade discount with Cash discount.

### Example-1

Mr. John Chaudhary is the owner of John Enterprise. During the month of March 2017, the following transactions took place:

- |       |    |  |
|-------|----|--|
| March | 1  | Purchased goods for ₹ 5,000              |
|       | 2  | Purchased furniture for ₹ 12,000         |
|       | 3  | Sold goods to John for ₹ 5,000           |
|       | 7  | Expensed on purchase for ₹ 5,000         |
|       | 9  | Purchased goods on credit for ₹ 5,000    |
|       | 12 | Cashed payment for bad debt for ₹ 2,000  |
|       | 13 | Bad debt written off for ₹ 1,000         |
|       | 15 | Purchased delivery for ₹ 1,000           |
|       | 20 | Salary paid to the employees for ₹ 7,000 |

### General Journal of Microcorps

Date	Account Debit & Explanation		Dr.	Credit	Total
2017					
March 1	Business Account	Debit		5,000	
	Cash Account	Credit			5,000
	(For goods purchased for sale)				
1	2	Business Account	Debit	12,000	
		Cash Account			12,000
	(For inventory purchased for sale)				
1	2	Business Account	Debit	12,000	
		Sales Account			12,000
	(For goods sold for profit)				
1	3	Sales Account	Debit	5,000	
		Cash Account			5,000
	(For cash deposited into bank)				
1	4	Business Account	Debit	1,000	
		Expenses Account			1,000
	(For goods purchased for resale)				
1	5	Bad Debt Account	Debit		
		Provision for Bad Debt Account			1,000
	(For amount provision for bad debts)				
1	5	Provision for Bad Debt Account	Debit	1,000	
		Expenses Account			1,000
	(For provision off bad debts)				
1	6	Inventory Account	Debit	1,000	
		Cash Account			1,000
	(For inventory purchased for sale)				
1	6	Sales Account	Debit	1,000	
		Cash Account			1,000
	(For interest paid monthly)				
		Total		46,000	46,000





..	12	Input tax credits	Debit		4,000	
		Cost Account	Credit			4,000
		(Office use paid separately)				
..	18	Outgoing interest (Bank)	Debit	1,000		
		Parking office account	Credit		1,000	
		(For goods interest in final accounts)				
..	20	Advertisement Account	Debit	1,000		
		Cost Account	Credit		1,000	
		(For expenses paid for advertisement)				
	26	Outgoing interest (Bank)	Debit	1,000		
		Bank account	Credit		1,000	
		(Interest charged on Bank L)				
..	28	Insurance Account	Debit	1,000		
		Cost Account	Credit		1,000	
		(Premiums expenses paid from the business)				
..	30	Salary account	Debit	1,000		
		Wages & Salary account	Credit		1,000	
		(Salary of Sales assistant)				
		<b>Total</b>		<b>124,000</b>		<b>124,000</b>

### Journal of Service Providing Organisation

On 1 March 2017 Mr. Pyank Kumar started a Service business called Kumar Throat in Delhi Road. On 1 March he invested Rs. 1,00,000 in business. Transactions in March of his business are:

March	1	1 month's rent of the shop paid in advance Rs. 50,000
"	8	Publicity expenses of the business Rs. 10,000
"	8	Expenses of office and utility for the month Rs. 10,000
"	7	Cost of making & delivering soap Rs. 50,000
"	10	Transportation expenses for soap & medicines Rs. 2,000
"	15	Salary of sales for showing doors Rs. 50,000
"	18	Goods return paid to the owner Rs. 20,000
"	20	Electricity bill due Rs. 1,000
"	25	Salaries paid to the shop employees Rs. 10,000

**Solution:**

### General Journal of Kumar Throat

Date	Account Title & Explanation	L. F.	Debit Rs.	Credit Rs.
2017 March 1	Cost Account Capital Account (For cash brought in as equity)	Debit Credit	1,00,000	1,00,000

Date	Account Title & Description	L	P	Debit	Credit	Debit	Credit
March 28	Report Expense Account	Debit		10,000			
	Cash Account		Credit		10,000		
	(for office report expenses)						
4	Advertising Expense Account	Debit		15,000			
	Cash Account		Credit		15,000		
	(for advertising expense paid)						
11	Traveling Expense Account	Debit		20,000			
	Cash Account		Credit		20,000		
	(for traveling expense paid)						
17	Long & Short-term expense Account	Debit		10,000			
	Cash Account		Credit		10,000		
	(for selling long & short term of paid)						
18	Entertainment expense Account	Debit		1,000			
	Cash Account		Credit		1,000		
	(for entertainment expense paid)						
19	Cash Account	Debit		60,000			
	Service revenue Account		Credit		60,000		
	(for selling value of service)						
20	Freight expense Account	Debit		25,000			
	Cash Account		Credit		25,000		
	(for paying freight to the office)						
24	Electricity expense Account	Debit		1,000			
	Electricity expense due A/c		Credit		1,000		
	(for electricity billings)						
26	Interest expense Account	Debit		12,000			
	Cash Account		Credit		12,000		
	(for interest paid to the bank employees)						
	<b>Total</b>			<b>1,37,000</b>			<b>1,37,000</b>

**Activity**

Following transactions took place in M/S Bhatia & Co. during April 2017

April 1. Capital received from Shri. J. K. 1000.

2. Cash loan from Shri. K. 20,000

5. Purchase of goods 100

8. Sold old furniture Rs. 2,000.

10. Paid office expenses of Rs. 1,000

12. Money payable Rs. 1,000 paid by bank.

- 15 Purchased chair and table @ 7000
- 18 Interest on investment @ 1000
- 19 Outstanding receivable @ 400
- 20 Withdrawal from bank @ 4000
- 27 Paid credit by cheque @ 1000 and received discount @ 200
- 30 Charge depreciation of furniture @ 1000

Record the above transactions in the General Journal Book.

**Purchase Journal:** Whatever purchased on business whether intention of sale or goods. These goods can be bought through bank the cash and credit Goods these are bought on credit are recorded in Purchase Journal. Purchase journal is prepared based on invoice. A purchase Journal based on Invoice is prepared like as:-

Invoice No- 1009		<b>Shandagar Agency</b>		Date: 1 March 2017	
		P.O. Address: New Shandagar Chola			
Buyer's Name: Shandagar Address: 123, Shandagar, Chennai		Invoice			
Sl.No.	Description of Goods	Rate (Rs)	Qty	Amount (Rs)	
1	New Chair 100 Table 1000 (Total 1100)	40	1000 kg	40000	1,000
				<b>10,000</b>	
Total Amount: 10,000 (Ten Thousand Rupee) (See Invoice 1009, Net 10)					
T/T: Bank of Chennai Branch				Sales Department	

#### Sales Agency's Purchase Journal

Date	Account Credited	Condition	Invoice No.	Terms	Purchase Amount Purchase Invoice - Credit
2017					
Mar 1	Shandagar Agency	10% on 10	1009	✓	10,000
1 Mar	Shaga Agency	5% on 20	1008	✓	2,000
					12,000

(Note: if Shaga agency sendy material)

**Sales Terms:** If the sales terms is like this - 2000 Mar 10 @ 10 means, if the buyer is able to pay the dues within 10 days gets 10% cash discount. If failed then there have to be paid within 30-day after expiry.

**Sales Journal:** Goods sold on account is recorded in Sales Journal. Sales Journal is also prepared based on invoice. Statement of Sales Journal mentioned below-

**Shreebhagat Agency's Sales Journal**

Date	Account Debited	Invoice No.	Invoice	Debit to Sales Journal	Credit to Sales Journal
2022					
March - 2	Sales Return	1455	✓		15,000
March - 10	Return Return	1457	✓		15,000
					30,000

N.B: The part of transferring to Ledger from Purchase & Sales Journal is mentioned in the Ledger chapter.

Carriage, Packing and insurance expenses are related to goods purchase and sale. Hence, if the charges should be debited and buyer have to pay the charges if these are included in the invoice. Total amount of invoice given is recorded both in purchase journal and sales journal.

**Journal:** All business transactions are summarizing of accounts means, Credits. During the month of November 2022 following transactions took place at the business.

- Nov - 1     Sold to Mohd. Iqbal, Chalis- 50 Kg. of oil at Rs.100 per Kg. Trade discount allowed 10%. Invoice No. 100. Condition- 2/10, net 30
- "   5     Sold to Jaya Traders- 100 Packet of Tea at Rs. 200 per Packet. Trade discount allowed 10%. Invoice No. 111. Condition- 2/10, net 30
- "   8     Sold to Ramesh Sona- 100 Packet of Tea at Rs. 120 per Packet. Trade discount allowed 10%. Invoice No. 124
- "   11    Sold to Rishi Brothers- 120 bags of flour sent at Rs. 100 per bag. Trade discount allowed 10%. Invoice No. 130
- "   15    Sold to Shikhar and Sonu- 100 bags of flour at Rs. 1000 per bag. Trade discount allowed 10%. Invoice No. 200
- "   20    Sold to Ramesh Traders - 50 packet of powder milk at Rs. 120 per packet. Trade discount allowed 10%. Invoice No. 150

Prepare Purchase Journal and Sales Journal from above information.

**Purchase Return Journal:** If the delivered goods are not as per order below checked or date expired brought goods are returned to the seller. The buyer must prepared Debit Note to seller for returning goods and prepare Purchase Journal.

Salesperson No. 123 <b>Sales Brothers</b> Address: 123 Main Street, Chicago, IL 60601 <b>Chicago, Illinois</b>		Date: 18 August 2017
Name: <b>Sgt. Steven Rodriguez</b> <b>Debit and</b>		
No.	Description of Inventory Goods	Amount (Total)
1	10 ea. Tom Jordan Shoes & 100 pairs of socks. These make the total of 10 dollars that was sent.	10.00
	Less: Undercharge	1.00
Total (Amount)    Twelve Hundred and no		
Sgt. Steven B. Rodriguez/Chicago		Parker Morgan

### Sales Brother's Purchase Return Journal

Date	Account/Debit	Unit/Quantity	Source	Debit Amount (Purchase Return No.)	Total Credit
Aug 18	Sales Return Chicago	100	✓	1,000	1,000
" 20	Steven Rodriguez	100	✓	1,000	
" 20	Chicago	100	✓	1,000	
				1,000	

Undercharge and Overcharge noted.

**Sales Return Journal:** Recording returned goods along with debit note they buy, before identified buyer preparing credit note that has amount as credited dollar and credit note buyer and prepare Sales Journal for having the goods returned to him.

Credit person No. 123 <b>M.N. Morgan Enterprises</b> Address: 123 Main Street, Chicago, IL 60601 <b>Chicago, Illinois</b>		Date: 18 August 2017
Name: <b>Steven Rodriguez</b> <b>Credit Note</b>		
No.	Description of Inventory Goods	Amount (Total)
1	10 ea. Tom Jordan Shoes & 100 pairs of socks. These make the total of 10 dollars that was sent.	10.00
	Less: Undercharge	1.00
Total (Amount)    Twelve Hundred and no		
M.N. Steven B. Rodriguez/Chicago		Parker Morgan

### M/S. Shreeya Enterprises's Sales Returns Journal

Date	Account Debited	Credit Rs./Pcs.	Reason	Debit Return Account (Debit to credit)	Dr. Cr.
2017					
Aug. 10	Return Invoiced	127	✓	12700	
" 15	Supp. Invoiced	540	✓	5400	
" 20	Supp. Invoiced	200	✓	2000	
				10100	

Assume that above Shreeya returned:

- Example:** The following returns happened on April 20, 1988 from Shreeya:
- April 1: 10 goods (credit note Rs.200 each) returned from Rajesh Traders, as they were damaged. Trade discount 10%. Credit note no.-100
- " 5: 40 kg. shagun at Rs.10 per kg. returned to Shreeya & from this condition quality. Trade discount 1%. Debit note no.-102
- " 12: 10 goods for Rs.1,700 per good returned to Laxmi Traders as it was not according to sample. Debit note no.-103
- " 24: 4 dozen soap with 10% per dozen returned from Rajesh & Shreeya to return deliver. Trade discount 4%. Credit note no.-104

**Record the following return & debit-credit journal**

10. In Example, and questions to prepare Credit Receipts & Cash Payments Journal described in Chapter 9

## Exercise

### Multiple-choice Questions

1. Journal is called as account
- Primary book
  - Subsidiary book
  - Accountant book

Which ones account of the following?

- a) 1 & ii      b) 1 & iii      c) ii & iii      d) i, ii & iii

2. It is known that journal is —
- Total number of transactions
  - Total amount of every transactions
  - Balance of transactions

Which one is correct of the following?

- a) i & ii      b) ii & iii      c) i & iii      d) i, ii & iii

3. Which entry is recorded in Journal proper?
- a) Purchase journal                      b) Sales journal  
c) Adjusting journal                    d) Cash journal
4. Which entry is recorded in Purchase journal?
- a) All goods purchased                b) All goods purchase on credit  
c) Assets purchase only                d) Goods purchase on credit only
5. Which entry is the documentary evidence of Sales return journal?
- a) Debit note    b) Credit note    c) Debit voucher    d) Credit voucher
6. Which entry is used for closing the income and expenses account?
- a) Opening    b) Transfer    c) Adjusting    d) Closing
7. Which one will be debited for buying Office equipment?
- a) Depreciation    b) Computer    c) Paper weight    d) Assets
8. Salary due to employee/Staff. Which one is the correct journal entry?
- a) Debit account                      Debit    b) Salary account                      Debit  
Salary account                      Credit    Staff account                      Credit  
c) Salary account                      Debit    d) Outstanding Salary A/c                      Debit  
Outstanding Salary A/c                      Credit    Salary account                      Credit

Read the following passage and answer questions No. 9, 10, 11 & 12.

On 1st October 2017 Mrs. Sabana Thomas started a business with Rs.2,00,000 purchasing her own furniture from it. 100 000 is the name of her business named Sabana Enterprise. On 10th October Furniture purchased on credit is Rs.50,000. On 15th October sold goods to Mansel for Rs.20,000. On 15th October bought goods returned is 5 000.

9. What is the amount of opening capital of Sabana/Enterprise?
- a)Rs.1 00,000                              b) Rs.2 00,000  
c)Rs.1,50,000                              d) Rs.2 50,000
10. The transaction of 10th October will be recorded in which primary book?
- a) Purchase journal                      b) Cash purchase journal  
c) Journal proper                        d) General journal
11. Which one is the correct journal of October 10th?
- a) Mansel account    Debit    Rs. 20 000    c) Cash account    Debit    Rs. 20 000  
Sales account                      Credit    Rs. 20,000    Sales account                      Credit    Rs. 20,000  
d) Cash account    Debit    Rs. 20 000    e) Mansel account    Debit    Rs. 20,000  
Mansel account                      Credit    Rs. 20 000    Cash account                      Credit    Rs. 20,000





3. Following transactions occurred in Chowdhury Hardware during January 2017 :-

- Jan. 01 Started business with capital Rs. 2,50,000 and Furniture worth Rs. 45,000
- Jan. 05 Sold 100 ft. of 1/2 pipe to Mr. P. P. for Rs. 150 per ft. to Suburban Traders allowing 2% discount. Invoice no. 001 (Banking charge Rs. 500).
- Jan. 08 Goods purchased from Rajan Traders by cheque Rs. 41,500.
- Jan. 15 Paid a freight charge for furniture sent Rs. 200
- Jan. 18 Clearance expenses for Ahmedabad which brought for clearance Rs. 1,000
- Jan. 28 Goods withdrawn for personal needs Rs. 100

- a) What is the amount of opening capital of Chowdhury Hardware?
- b) Prepare an Income Statement for the month ended January 31
- c) Record the transactions occurred on January 5, 18, 19 and 28 in General journal

4. Following transactions occurred in Khan Computers during July 2017

- July 02 Raja Computers purchased from Meta Computers at Rs. 20,000 each. Trade discount @ 10% Invoice no. 200. Clearance expenses Rs. 1,000
- July 05 Raja Computers purchased from Raja Computers at Rs. 50,000 each. Invoice no. 111, trade discount @ 5%, packing expenses Rs. 500
- July 20 Raja computers returned to Raja Computers due to inferior quality. Defect note no. 201

- a) What is the total amount of overhead expenses of Khan Computers in purchase in July
- b) Prepare a Defect note considering the above transactions of July
- c) Prepare a Purchase journal of Khan Computers from the above transactions

5. Following assets & liabilities of ABC & XYZ Traders on 1 January 2017 were: Cash Account Rs. 40,000, Furniture Rs. 1,00,000, Investment Rs. 50,000, Creditors Rs. 15,000 & Capital Rs. 1,00,000 on 31 December 2017 following events were recorded in books:-

- 1) Total sales paid Rs. 1,20,000 out of which Rs. 20,000 paid in advance.
- 2) Raja paid Rs. 50,000 in instalment Rs. 10,000
- 3) Investment payable Raja. Investment Rs. 5,000
- 4) Charge depreciation on Furniture Rs. 10,000

- a) Give opening Journal entry from the above information.
- b) Show necessary adjusting entries at the end of year.
- c) Give closing entry in Journal paper of 10% Add. Taxation.

6. Five transactions of 'Mishra's Pharmacy' in July 2017 are as follows:

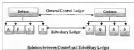
- July 1      Tk. 10,000 paid the new trade-in amount.
- 5      Purchased 10 cartons defective medicines of tk. 300 per carton returned to Mishra's pharmacy (Debit note no. 01)
- 10      B1 Computer worth tk. 40,000 brought for keeping accounts of business.
- 15      100 packets expired Miltan capsules of tk. 300 per packet returned from customers (Mishra's). Discount 5%. Credit note no. 112
- 20      100 bags saline (tk. 100 per bag) in accordance with orders returned to Private Pharma. Trade Discount 5%. Debit note no. 110
- 25      Sold goods to Mercury Drugs worth tk. 25,000 at 10% discount returned for poor quality. Credit note no. 444

- a) Prepare General Journal for transactions dated July 1 & 10
- b) Prepare Purchase Return Journal of Mishra's Pharmacy
- c) Prepare Sales Return Journal of Mishra's Pharmacy considering above information.

## Chapter Seven

# Ledger

After the recording of transactions primarily it's necessary to transfer them to the concerned heads of account following the classification of accounts. Throughout the year, at different times goods are bought and sold both on credit and cash. Without accumulating credit purchases from purchases posted and cash purchases from cash book total purchase can never be obtained. Ledger assemblies the scattered purchases, sales and other incomes and expenses and helps in ascertaining total purchases, total sales and other total incomes & expenses. Similarly, the results of the transactions related to assets, liabilities and equity of business organisation are transferred to related accounts maintained under ledger. To know about the balances of accounts and to verify their arithmetic accuracy along with having a primary idea about the total condition of the business are facilitated in this chapter.



At the end of this chapter, we will be able to

- explain the idea and importance of ledger on experimental level
- classify the types of ledger
- detect the differences between Journal & Ledger
- classify the balances by preparing accounts through 'T' and 'Balancing Balance'-format.
- analyse the significance of debit & credit balance of ledgers.

## Concept of Ledger

Different types of accounts like assets, liabilities, owner's equity, income, expenses and accounts of profit loss are kept in business organisation. These accounts together are called ledger. Generally in a running business organisation opening debit or credit balance of accounts related with assets, liabilities & equity are carried. Results of transactions occurred in a specific period of time are transferred to related accounts of ledger properly. Balance of each account is calculated at end of accounting period. In this process, account of income, expense, profit & loss are calculated of a business organisation for that period and amount of assets, liabilities & owner's equity matches there in a specific date.

## Features

- Each account gives a title
- "Money & change" and "T" format are followed to prepare ledger
- Balance of each accounts are identified individually
- In preparing ledger journal acts as a helping book, Journal Entry are maintained at the time of recording in Ledger
- Verify the arithmetical accuracy of accounting entries
- Trial balance is prepared with the account balance from Ledgers.

Assets	Liabilities	Owner's Equity	Income	Expense
<ul style="list-style-type: none"> <li>Land, A/c</li> <li>Prepaid rent, A/c</li> <li>Current asset</li> <li>Property, Equipment, A/c (increased)</li> <li>Stock of Goods, A/c</li> <li>Goodwill</li> <li>Patent, A/c</li> <li>Intangible A/c</li> <li>Current debt</li> </ul>	<ul style="list-style-type: none"> <li>Accounts Pay, A/c</li> <li>Owner's A/c</li> <li>Accounts Pay, A/c</li> <li>Liabilities (Debit A/c)</li> <li>Liabilities (Debit A/c)</li> </ul>	<ul style="list-style-type: none"> <li>Capital, A/c</li> <li>Shareholder's A/c</li> <li>Shareholder's A/c</li> <li>Shareholder's A/c</li> <li>Shareholder's A/c</li> <li>Shareholder's A/c</li> <li>Shareholder's A/c</li> <li>Shareholder's A/c</li> <li>Shareholder's A/c</li> </ul>	<ul style="list-style-type: none"> <li>Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> </ul>	<ul style="list-style-type: none"> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> <li>Interest Income, A/c</li> </ul>

## Importance of Ledger

Since transactions are properly arranged in a sequence in accounts, users can easily access their desired information from the ledger. It's possible to get idea about the total amount of assets, liabilities, income and expenses of a business from the ledger. For the purpose of preparing trial balance, the balance of ledger are used and to verify arithmetical accuracy is confirmed. The necessity and importance of ledger is amplified by saying that ledger is the king of all books of accounts.

### Differences between Journal and Ledger

Journal and Ledger both are two steps of accounting cycle. Ledger by comparison is more important and useful than journal. Keeping journal is optional while compulsory for the case of ledger. Apart from the mathematical accuracy of accounts the ledger reflects the financial health and condition of a business. There are differences between the tables of a journal and a ledger. In a journal only the debit and credit side of transactions is identified whereas in a ledger balance of each accounts are identifiable by comparing total debit and total credits. For preparing the ledger properly and accurately journal acts as a supplementary book.

**Activity:** (Group work) Show the differences between Journal and Ledger

### Includes in Ledger or Posting

Transaction no. 1, 1017 : Goods purchased for cash Rs. 5,000

#### Journal Entry

Purchase Account				Debit				5,000			
Cash Account				Credit				5,000			
Posting to Ledger:											
Debit			Purchase Account						Credit		
Date	Particulars	Rs	Date	Particulars	Rs	Date	Particulars	Rs	Date	Particulars	Rs
20/1/2021	Cash Account		1/1/2021		5,000						
Debit			Cash Account						Credit		
Date	Particulars	Rs	Date	Particulars	Rs	Date	Particulars	Rs	Date	Particulars	Rs
			1/1/2021	Purchase Account	5,000						

Looking at the posting, as purchase account is debited in journal, it is posted to the credit side of the purchase ledger, but in the particulars reflects the opposite credited head name i.e. Cash account is mentioned. On the other hand, Cash account is credit as it has been posted to credit side of Cash account but the purchase account is represented in the name of debited account i.e. Purchase account. With above it is identifiable that purchase account is debited by which account, and cash account is credited by which account.



- Generally at the end of a specific year the difference between the debit and credit side is ascertained. The difference is then settled by balancing C/D i.e. normal items getting on the lower side for making both side equal. The above account is for the month of March, as the difference is calculated at the end of the month.
- Balance C/D at the end of a particular period will be posted to the opposite side of the account mentioning Balance B/D i.e. brought down at the beginning of a next period.
- The balance represents the higher amount is balance. For example the above credit account showing debit balance, so on April 01 Balance B/D is written on the debit side of Cash account and the ledger of April has been opened.

C/D	Credit Closing
B/D	Brought Down
CP	Credit Forward
BP	Brought Forward

#### Activity:

Debit		Cash Account				Credit	
Date	Particulars	JR	Total	Date	Particulars	JR	Total
2017				2017			
May 1	By Cash Account		80,000	May 5	To Cash Account		8,000
" 2	By Cash Account		10,000	" 7	To Cash Account		6,000
" 9	By Cash Account		1,000	" 28	To Cash Account		1,000

Calculate the balance of these account.

#### "Moving Balance" - Table

		Cash Account			Cash Bk. or Account	
Date	Particulars	JR	Debit Total	Credit Total	Balance	
					Debit	Credit
2017						
March 1	By Cash Account		20,000		20,000	
March 01	To Cash Account			12,000		1,000

- The balance of account is maintained one time. The balance is calculated just after each posting.
- There are separate columns for showing the balance in the closing balance method.

Account Opening	Balance of Accounts
Debit Posting	Debit Balance +
Credit Posting	Debit Balance -
Credit Posting	Credit Balance +
Debit Posting	Credit Balance -

- The total of debit and credit posting is not maintained. This is mentioned just at the end.

Account		Debit Account		Credit Side of Account		
Date	Particulars	RP	Debit Total	Credit Total	Balance	
					Debit	Credit
Start						
July 1	Debit Account		1,000			
" 3	Debit Account		1,000			
" 4	Freight In Account			1000		
" 10	Insurance Account			1000		
" 20	Bank Account			2000		

Carrying forward balance of other account.

C/O or C/P is maintained in the end of a certain time. This balance is again recorded as D/P or D/C in the opposite side in the beginning of the next month. Whenever the debit posting equals the credit posting the balance becomes zero and it is called a reciprocal or balanced account. This type of account is known as the balanced account.

#### General Normal Balance of Accounts

Classification of Accounts	Type of Balance
Assets	Debit Balance
Liabilities	Credit Balance
Equity	Credit Balance
Revenue	Credit Balance
Expense	Debit Balance



### Preparing of Ledger from General Journal

On 1 March 2017 Mr. Shafiq started a business named 'Shafiq Traders' with capital of Tk. 1,00,000. Transactions for the month were -

**March 1:** Furniture purchased Tk. 20,000

- „ 3: Goods purchased on credit Tk. 30,000
- „ 5: Goods sold Tk. 20,000
- „ 6: Purchase returned Tk. 1,000
- „ 12: Tk. 10,000 positive-balance
- „ 15: A bank account opened by depositing Tk. 10,000
- „ 21: Goods sold and received a cheque Tk. 5,000
- „ 25: Goods Purchased from Shafiq by cheque Tk. 4,000
- „ 28: Salaries paid to the employees Tk. 5,000

Journalize the above transactions and Calculate the balance by transferring to concerned Ledger accounts.

**Solution:**

#### General Journal of Shafiq Traders

Date	Particulars	L/F	Debit Tk.	Credit Tk.
2017				
March 1	<div> <div>Cash Account</div> <div>Dr</div> <div>—</div> </div> <div> <div>Capital brought</div> <div>Cr</div> <div>—</div> </div> <div>(The cash brought in is capital)</div>		1,00,000	1,00,000
„ 1	<div> <div>Furniture Account</div> <div>Dr</div> <div>20,000</div> </div> <div> <div>Cash Account</div> <div>Cr</div> <div>20,000</div> </div> <div>(Furniture Purchased for cash)</div>			20,000
„ 3	<div> <div>Purchase Account</div> <div>Dr</div> <div>30,000</div> </div> <div> <div>Creditors Account</div> <div>Cr</div> <div>30,000</div> </div> <div>(Goods brought in on credit)</div>			30,000
„ 5	<div> <div>Cash Account</div> <div>Dr</div> <div>20,000</div> </div> <div> <div>Sales Account</div> <div>Cr</div> <div>20,000</div> </div> <div>(The goods sold for cash)</div>			20,000
„ 6	<div> <div>Cash Account</div> <div>Dr</div> <div>1,000</div> </div> <div> <div>Purchase Return Account</div> <div>Cr</div> <div>1,000</div> </div> <div>(The purchase return for goods)</div>			1,000

Date	Particulars	Dr	Cr	Debit Total	Credit Total
1911	Capital Account	Dr		10,000	
	Cash Account	Cr			10,000
	(Paid cash to the vendor.)				
" 15	Bank Account	Dr		10,000	
	Cash Account	Cr			10,000
	(Bringing account opened with bank.)				
" 22	Bank Account	Dr		5,000	
	Sales Account	Cr			5,000
	(We sold goods for cash.)				
" 25	Purchase Account	Dr		5,000	
	Bank Account	Cr			5,000
	(Purchased from Stanley Co. cheque.)				
" 28	Salaries Account	Dr		1,000	
	Cash Account	Cr			1,000
	(Salaries paid to the employees.)				
	Total			210,000	210,000

### Related accounts

- |                     |                      |                            |
|---------------------|----------------------|----------------------------|
| 1. Cash Account     | 4. Purchase Account  | 7. Purchase Return Account |
| 2. Capital Account  | 5. Creditors Account | 8. Stock Account           |
| 3. Purchase Account | 6. Purchase Account  | 9. Salaries Account        |

### "T" Format

Debit		Credit Account		Credit	
Date	Particulars	Dr	Debit	Particulars	Cr
1911			1911		
March 1	Capital A/c	1,00,000	March 2	Banking A/c	10,000
" 1	Bank A/c	20,000	" 12	Creditors A/c	15,000
			" 18	Bank Account	17,000
			" 25	Salaries A/c	1,000
			" 28	Salaries A/c	7,000
		1,20,000			1,20,000
April 1	Balance B/d	70,000			

Debit				Capital Account				Credit	
Date	Particulars	JF	Total	Date	Particulars	JF	Total		
2017				2017					
March 14	Balance B/F		1,80,000	March 1	Cash Account		1,80,000		
			1,80,000	April 1	Balance B/F		1,80,000		

Debit				Partners Account				Credit	
Date	Particulars	JF	Total	Date	Particulars	JF	Total		
2017				2017					
March 1	Cash Account		20,000	March 14	Balance C/D		20,000		
			20,000						
April 1	Balance B/F		20,000						

Debit				Partners Account				Credit	
Date	Particulars	JF	Total	Date	Particulars	JF	Total		
2017				2017					
March 1	Partners Account		20,000	March 14	Balance C/D		20,000		
— 14	Cash Account		10,000						
			30,000						
April 1	Balance B/F		30,000						

Debit				Credit Account				Credit	
Date	Particulars	JF	Total	Date	Particulars	JF	Total		
2017				2017					
March 1	Partners Account A/c		1,000	March 1	Partners Account		10,000		
— 15	Cash Account		10,000						
— 31	Balance C/D		11,000						
			11,000	April 1	Balance B/F		11,000		

Sales Journal				Credit			
Date	Particulars	Dr	Total	Date	Particulars	Dr	Total
2017				2017			
March 31	Balance C/D		20,000	March 31	Cash Account		10,000
			20,000	— 31	Bank A/c		10,000
							20,000
				April 1	Balance B/D		20,000

Purchase Journal				Credit			
Date	Particulars	Dr	Total	Date	Particulars	Dr	Total
2017				2017			
March 31	Balance C/D		1,000	March 31	Cash A/c		1,000
			1,000				1,000
				April 1	Balance B/D		1,000

Bank Account				Credit			
Date	Particulars	Dr	Total	Date	Particulars	Dr	Total
2017				2017			
March 31	Cash account		11,000	March 31	Purchase A/c		1,000
— 31	Balance A/c		1,000	— 31	Balance C/D		10,000
			12,000				11,000
April 1	Balance B/D		12,000				

Sales Journal				Credit			
Date	Particulars	Dr	Total	Date	Particulars	Dr	Total
2017				2017			
March 31	Cash Account		1,000	March 31	Balance C/D		1,000
			1,000				1,000
April 1	Balance B/D		1,000				

**Working Balance'- Format**

		Debit Account		Credit No. of Account		
Date	Particulars	RF	Debit Total	Credit Total	Balance	
					Debit	Credit
2017						
March 1	Capital Account		50,000		50,000	
" 2	Preference Account			50,000		50,000
" 3	Particulars Account		25,000		1,00,000	
" 12	Creditors Account			20,000		20,000
" 15	Bank Account			50,000		50,000
" 31	Balance forward			1,000		10,000

		Capital Account		Credit No. of account		
Date	Particulars	RF	Debit Total	Credit Total	Balance	
					Debit	Credit
2017						
March 1	Bank Statement			1,00,000		1,00,000

Preference Account					Credit No. of Account	
Date	Particulars	RF	Debit Total	Credit Total	Balance	
					Debit	Credit
2017 March 1	Credit Account		20,000		20,000	

Particulars Account				Credit No. of Account		
Date	Particulars	RF	Debit Total	Credit Total	Balance	
					Debit	Credit
2017 March 1	Credit Account		50,000		50,000	
" 31	Bank Account		1,000		50,000	

		Creditors Account		Credit No. of Account		
Date	Particulars	RF	Debit Total	Credit Total	Balance	
					Debit	Credit
2017						
March 1	Particulars			50,000		50,000
" 1	Particulars Balance		1,000			20,000
" 31	Credit balance		50,000			50,000

Date	Particulars	JF	Sales Account		Credit No. of Account	
			Debit Total	Credit Total	Debit	Credit
2017 March 1	Cash Account			20,000		20,000
" 11	Bank Account			10,000		10,000

Date	Particulars	JF	Bank Account		Credit No. of Account	
			Debit Total	Credit Total	Debit	Credit
2017 March 11	Cash Account		10,000		10,000	
" 12	Sales Account		6,000		20,000	
" 15	Banking Account			4,000		17,000

Date	Particulars	JF	Banking Account		Credit No. of Account	
			Debit Total	Credit Total	Debit	Credit
2017 March 15	Cheques Account			4,000		4,000

Date	Particulars	JF	Sales Account		Credit No. of Account	
			Debit Total	Credit Total	Debit	Credit
2017 March 15	Cash Account		2,000		2,000	

**Activity.**

Post the following transactions into the ledger account and balance the accounts of Ramco Enterprises.

2017

- August 1    Subgoods received Rs. 10,000
- "    3    Cash from sales of Rs. 10,000
- "    4    Deposited in the Bank Rs. 10,000
- "    6    Purchase of goods received Rs. 2,000
- "    12    Cash Rs. 4,000 received from selling
- "    15    Withdraw cash from Bank for personal use Rs. 1,000

- a. 20      Overbalanced by cheque No. 100
- a. 20      Cheque no. 10.12/100.

Debits and two groups can follow 'T' and other 'balancing/Reversal' method.  
 Masterfile/Reversal will use master

### General Ledger

Cash Account, Capital Account, Purchase Account, Sales Account, Purchase Account, Debitors Account, Creditors Accounts are General Ledger. These are several Debitors & Creditors in a business. Among the all-general ledgers, only the Debitors & Creditors accounts are also known as Control Accounts. Because both debtors & creditors account are the summation of all debtors & all creditors.

### Subsidiary Ledger

Individual account is opened for each debtor and each creditor outside general ledger. Thus, the individual account flow from debtors & due to creditors, can be ascertained easily. The account that is prepared for each debtor & creditors are called Subsidiary Ledger.



### Special Journal & Related Ledger Preparation

We have got the idea about all Special Journals in the chapter- 'Journal'. Thus, the procedure of preparing General and Subsidiary ledgers from special journals are shown -

# Purchase Journal and Related Ledgers

## Mounting Enterprise's Purchase Journal

Date	Account Credited	Credit Amount	Invoice No.	Terms	Debit (to) AP Credit (to) CR
2017 June 1	Equipment	1,000 net 50	175		1,000
" 18	Radio Station	2,000 net 20	176		2,000
" 20	Radio/Telephone	1,000 net 30	178		1,000
					4,000

## General Ledger

### Purchase Journal      Cash (Dr.) of Accounts

Date	Particulars	Dr	Total		Balance	
			Debit	Credit	Debit	Credit
2017 June 27	Cash (to) AP		4,000		4,000	

### Creditors Accounts

### Cash (Dr.) of Accounts

Date	Particulars	Dr	Total		Balance	
			Debit	Credit	Debit	Credit
2017 June 27	Partners A/c			4,000		4,000

## Subsidiary Ledger

### Equipment

### Cash (Dr.) of Accounts

Date	Particulars	Dr	Total		Balance	
			Debit	Credit	Debit	Credit
2017 June 2	Partners A/c			1,000		1,000

### Radio Station

### Cash (Dr.) of Accounts

Date	Particulars	Dr	Total		Balance	
			Debit	Credit	Debit	Credit
2017 June 18	Partners A/c			2,000		2,000

### Radio Telephone

### Cash (Dr.) of Accounts

Date	Particulars	Dr	Total		Balance	
			Debit	Credit	Debit	Credit
2017 June 20	Partners A/c			1,000		1,000

19 20 This posting is made to the subsidiary ledger from special journal exemplar and to the general ledger at the end of each month



## Sales Journal and Related Ledgers

## Sales Journal and Sales' Sales Journal

Date	Account Debited	Invoice No.	Invoice	Balance Account (Sales Account)	Dr Cr
2007 Aug. 3	Capt. Telephone	134		20,400	
" 10	Marika Computer	135		17,500	
" 24	David Brothers	137		15,000	
				52,900	

## General Ledger

Date	Particulars	Dr	Sales Journal		Credit Dr. of Account	
			Debit Total	Credit Total	Debit	Credit
2007 Aug. 24	Cash on A/c			52,900		52,900

Date	Particulars	Dr	General Journal		Credit Dr. of Account	
			Debit Total	Credit Total	Debit	Credit
2007 Aug. 24	Sales Journal		52,900		52,900	

## Subsidiary Ledger

Date	Particulars	Dr	Sales Journal		Credit Dr. of Account	
			Debit Total	Credit Total	Debit	Credit
2007 Aug. 3	Sales Journal		20,400		20,400	

Date	Particulars	Dr	Marika Computer		Credit Dr. of Account	
			Debit Total	Credit Total	Debit	Credit
2007 Aug. 10	Sales Journal		17,500		17,500	

Date	Particulars	Dr	David Brothers		Credit Dr. of Account	
			Debit Total	Credit Total	Debit	Credit
2007 Aug. 24	Sales Journal		15,000		15,000	

## Purchase returns Journal and related ledgers

## Bataila Electronics Store's Purchase Returns Journal

Date	Account Debited	Units Returned	Amount	Debit to Purchase Return A/c	to Cr.
2017					
Jan. 7	Squad and Brothers	10		11,000	
" 10	Bulker and Sons	05		11,000	
" 20	Bata European	10		11,000	
				33,000	

## General Ledger

## Purchase Return Account

Credit Side of Account

Date	Particulars	Dr.	Units Taken	Credit Taken	Balance	
					Debit	Credit
2017						
Jan. 31	Carriage Account			33,000		33,000

Purchase Account

Credit Side of Account

Date	Particulars	Dr.	Units Taken	Credit Taken	Balance	
					Debit	Credit
2017						
Jan. 20	Purchase Return A/c			33,000		33,000

## Subsidiary Ledger

## Squad and Brothers

Credit Side of Account

Date	Particulars	Dr.	Units Taken	Credit Taken	Balance	
					Debit	Credit
2017						
Jan. 7	Purchase Return A/c			11,000		11,000

## Bulker and Sons

Credit Side of Account

Date	Particulars	Dr.	Units Taken	Credit Taken	Balance	
					Debit	Credit
2017						
Jan. 10	Purchase Return A/c			11,000		11,000

### Sales Enterprise

Date	Particulars	JP	Debit Total	Credit Total	Credit No. of Account	
					Balance	
					Debit	Credit
2017 Jan. 25	Paid Cash 100		100.00		100	

### Sales Returns Journal and Related Ledgers

#### John Smith's Sales Returns Journal

Date	Credit Account	Debit Number	Source	Sales Total Adj. to Debit Account Cr.	
2017 May 3	Radford Co.	101		10.00	
" 11	Parson Store	102		5.00	
" 20	Brant-Holmgren	103		5.00	
				20.00	

#### General Ledger

##### Sales Returns Journal

Credit No. of Account

Date	Particulars	JP	Debit Total	Credit Total	Balance	
					Debit	Credit
2017 May 25	Returned 100.00		100.00		100.00	

#### Returns Journal

Credit No. of Account

Date	Particulars	JP	Debit Total	Credit Total	Balance	
					Debit	Credit
2017 May 25	Sales Returns Adj.			10.00		10.00

#### Subsidiary Ledger

##### Radford and Co.

Credit No. of Account

Date	Particulars	JP	Debit Total	Credit Total	Balance	
					Debit	Credit
2017 May 3	Sales Returns Adj.			10.00		10.00

#### Parson Store

Credit No. of Account

Date	Particulars	JP	Debit Total	Credit Total	Balance	
					Debit	Credit
2017 May 11	Sales Returns Adj.			5.00		5.00

Date	Particulars	Debit Balance		Credit Balance	
		Dr	Cr	Dr	Cr
2017					
May 17	Bank Balance B.D.			4,000	

### Verifying arithmetical accuracy by Ledger balances

Equal amount of debit and credit is posted for each transaction. Being equal of total debit & total credit's balance reflects the arithmetical accuracy of accounts. On July 31, 2017 Mr. Salim started a business named 'Rashid Traders' with cash Rs. 20,000 and goods worth Rs.15,000. Other transactions were-

- July - 3     Purchased for cash Rs.20,000
- "    3     Furniture (Purchased) Rs. 5,000
- "    8     The 1000 deposited in bank.
- "   10     Goods purchased Rs.7,000
- "   14     Withdrawal Rs. 1,000
- "   20     Salim Paid to his employee Rs. 2000

### Table of Accounts

- |                       |                      |                      |
|-----------------------|----------------------|----------------------|
| 1   Cash Account      | 4   Sales Account    | 7   Drawings Account |
| 2   Purchases Account | 5   Purchase Account | 8   Salaries Account |
| 3   Capital Account   | 6   Bank Account     |                      |

### General Ledger

Date	Particulars	Dr	Debit Total	Credit Total	Credit Balance	
					Dr	Cr
2017						
July 1	Capital Account		20,000			20,000
"   8	Sales Account		20,000			20,000
"   8	Purchases Account			15,000	15,000	
"   8	Bank Account			5,000	5,000	
"   10	Bank Account			7,000	7,000	
"   12	Drawings Account			1,000	1,000	

**Particulars**

Credit Side of Account

Date	Particulars	JF	Debit Side	Credit Side	Balance	
					Debit	Credit
2017 July 1	Capital Account		25,000		25,000	
1-31	Cash Account		7,000		28,000	

**Capital Account**

Credit Side of Account

Date	Particulars	JF	Debit Side	Credit Side	Balance	
					Debit	Credit
2017 July 1	Cash Account			10,000		
	Partners' Securities			15,000		25,000

**Sales Account**

Credit Side of Account

Date	Particulars	JF	Debit Side	Credit Side	Balance	
					Debit	Credit
2017 July 1	Cash Account			25,000		25,000

**Particulars**

Credit Side of Account

Date	Particulars	JF	Debit Side	Credit Side	Balance	
					Debit	Credit
2017 July 1	Cash Account			5,000		

**Drawings Account**

Credit Side of Account

Date	Particulars	JF	Debit Side	Credit Side	Balance	
					Debit	Credit
2017 July 15	Cash Account		1,000		1,000	

**Bank Account**

Credit Side of Account

Date	Particulars	JF	Debit Side	Credit Side	Balance	
					Debit	Credit
2017 July 1	Cash Account		1,000		1,000	
1-31	Interest on			2,000		1,000

**Salaries Account**

Credit Side of Account

Date	Particulars	JF	Debit Side	Credit Side	Balance	
					Debit	Credit
2017 July 31	Bank Account		1,000		1,000	

Automated accuracy of accounts can be verified with the balances of ledger by preparing Trial Balance. Trial Balance is prepared with balances of above ledger.

### Trial Balance 31 July 2017

Sr. No.	Account Name	L/F	Debit Total	Credit Total
1	Bank Account		50,000	
2	Purchase Account		20,000	
3	Capital Account			40,000
4	Sales Account			50,000
5	Provision Account		1,000	
6	Drawings Account		1,000	
7	Bank Account		1,000	
8	Salaries Account		1,000	
			40,000	40,000

As the total debit balance is 40,000 is equal to total credit balance it is easy to say accounts recorded correctly.

21. If Debit decreases on Trial Balance how balanced is the chapter?

### Exercise

#### Multiple-Choice Questions

- From which one we can have the original source exposure, credit & debit side of business?
  - General Journal
  - General Ledger
  - Special Journal
  - Subsidiary Ledger
- What ledger is prepared separately by Debitors & Creditors?
  - General Journal
  - General Ledger
  - Subsidiary Ledger
  - Credit Ledger
- Account's Ledger is:
  - Primary book
  - Final book
  - Permanent book
 Which one is correct of the following?
  - I & II
  - I & III
  - I & II & III
  - II, III & IV
- What balance does change under the responsibility?
  - Debit
  - Credit
  - Opening
  - Closing

8. By following the moving balance method to prepare ledger—  
 (i) Possible to know the total amount of debit posting  
 (ii) Possible to know the total amount of credit posting  
 (iii) Balance of account can be known regularly  
 Which one is correct of the following?  
 (a) i & ii (b) i & iii (c) ii & iii (d) i, ii & iii
9. If total debit side of a account is greater than the total of credit side,  
 Which balance will be decreased?  
 (a) Income (b) Withdrawal (c) Debit (d) Credit
10. What does C/D and in ledger mean?  
 (a) Current forward (b) Current down  
 (c) Carry to-down (d) Carry from back
11. Debit balance of ledger indicates—  
 (i) Asset (ii) Expense (iii) Income  
 Which one is correct of the following?  
 (a) i & ii (b) i & iii (c) ii & iii (d) i, ii & iii
12. Subsidiary ledger refers to—  
 (i) Debit account (ii) Credit account and both account  
 Which one is correct of the following?  
 (a) i & ii (b) i & iii (c) ii & iii (d) i, ii & iii
13. For preparing ledger—  
 (i) Analyzing transactions compulsory  
 (ii) Journalising compulsory  
 (iii) Journalising helpful  
 Which one is correct of the following?  
 (a) i & ii (b) i & iii (c) ii & iii (d) i, ii & iii
14. Which one is prepared with ledger balances?  
 (a) Cash book (b) Accounts receivable  
 (c) Accounts payable (d) Trial balance

Considering the following, answer the questions no. 12, 13 and 14:

Date	Account title	Debit Account		Account credit to	
		J.P.	Debit Total	Credit Total	Balance Total
2017					
June 01	Balance B/FD				10 000
June 15	Purchase A/c		2 000		
June 18	Purchase A/c			5 000	
June 30	Sales A/c		8 000		

12. Which one is the general journal for June 17?

- (a) Purchase account      Debit      14 Purchase account      Debit  
     Cash account          Credit           Purchase account      Credit  
 (b) Cash account          Debit      15 Purchase account      Debit  
     Purchase account      Credit           Sales account          Credit

13. What is the closing balance of Cash account?

- (a) R. 10 000      (b) R. 12 000      (c) R. 15 000      (d) R. 18 000

14. What is revealed from the account of the cash transactions in June, that is:

- (a) Total cash received R. 10 000  
 (b) Total cash payment R. 5 000  
 (c) Closing cash is total R. 3 000

Which one is correct of the following?

- (a) 1 & 2      (b) 1 & 3      (c) 2 & 3      (d) 1, 2 & 3

### Creation Questions

1. Five transactions of 'Newway Pharma' entered in the ledger of 'Miles' during January 2017 are recorded below:

- January 1      Started business with Cash R. 15 000, Computer R. 30 000 and  
                     Sulphuric Machine worth R. 20 000  
 January 3      Machine bought from John Drugs R. 10 000  
 January 7      Sale of old Printer machine for R. 3 000  
 January 10      Expired medicines returned to John Drugs R. 4 000  
 January 20      Sold medicines to cash R. 1,10,000



- Calculate opening and closing inventory according information.
- Draw Journal entries for the transactions from January 1 to 31
- Prepare Cash Account, Office Equipment Account, Purchase Account & Cost of Sales Account using above transactions

3. Armita Timbers is a wholesale business organisation of grocery goods. Five transactions of September 2017 are mentioned below:

- Sep. 01 Purchased from Pashan Brothers, 50 bags of rice at £ 2,500 each bag (50 kg, net 45 kg) Trade discount (20% ) Invoice no. 123
- Sep. 02 Purchased from Armita Timbers, 200 kg. pulses at £. 100 per kg. Trade discount 10% Invoice no. 432
- Sep. 11 Pulses not returned to Pashan Brothers due to inferior quality
- Sep. 18 20 kg. pulses returned to Armita Timbers for not being sample

- Prepare a purchase Journal from the above transactions
- Prepare the general ledger accounts considering the above transactions.
- Prepare the subsidiary ledger accounts considering the above transactions

3. The following account collected from Murali Enterprises's account book:

Date		Cash Account				Credit	
		August 2016 to					
Date	Particulars	LT	Taka	Date	Particulars	LT	Taka
2017				2017			
Jan. 01	Balance B/D		25,000	Jan. 01	Bank account		25,000
Jan. 17	Bank account		21,000	Jan. 18	Salary account		1,000
				Jan. 28	Drawings account		1,000

- Determine the balance of each account of Murali Enterprises
- Draw the journal entries for the month of January 2017 considering the above account of Murali Enterprises
- Prepare Sales account, Bank account, Salary account, and Drawings account following closing balance method

4. Mr. Stone is a landscaper. He has recently started 'Stone Nursery' at 'Autshaps of Dover'. He produces different types of seedling of flowers, fruits and vegetables etc. On July 2017 the following transactions occurred to the business.

July 02: Tools and seeds purchased from Babbar & Sons Rs. 11,000

July 05: Sold to Prabhat & Co. on cash Rs. 17,000

July 08: Tools returned Rs. 1,000

July 20: Salary paid to employees Rs. 4,000

July 21: Advertisement expenses Rs. 1,000

a) Record the transactions of 'Stone Nursery' dated July 02 and 21 in Journal

b) Determine the balance of Babbar & Sons account and Cash account using 'T' ledger format.

c) Prepare: Purchase account, Sales account, Salary account, and Advertisement account using 'Moving Balance' ledger format.

## Chapter Eight

### Cash Book

Debitors and cash are closely related to each other. In every system of business, cash is essentially required. Buying and selling of goods & goods, collection & payments of debts, receipt of income & payments of expenses including all other operations the supply of cash and its proper management is significantly important. Cashbook is prepared based on the nature and size of the business, considering the size and safety of the business, bank plays a supporting role during cash transactions. It is essentially needed to know the transactions flow through bank and the bank balance.



Picture – Different types of Cash

At the end of this chapter, we will be able to:-

- explain the concepts of cash book and its importance
- prepare various types of cashbook and bank balance
- prepare credit entry
- cash receipt journal and cash payment journal
- record cash discounts
- transfer the balances of cashbook to ledger properly
- take into account bank statement
- understand the reason behind the differences/between the balances of bank statement and cash book.

## Concept of Cash Book

Everyday numerous transactions take place in business. We can categorise transactions based on a fixed criterion. The criterion is cash. Either there is an involvement of cash with transactions or not. The book where cash received & paid transactions are recorded together is called cash book. Cash book is the primary book of accounts, one of the major branches of journal.

- Goods sold for cash Rs. 10,000
- Goods purchased on credit Rs. 15,000
- Furniture purchased on cash Rs. 5,000
- Received cash from debtors Rs. 12,000
- Withdrawn cash from business by the owner Rs. 1,000
- Employees salary paid in cash Rs. 5,000
- The amount of bill payable cash Rs. 4,000

**Activity:** Find the similarities among the above transactions.

### Features

Cash is the spending power of business. Without the proper management of cash, the normal activities of business are hampered.

- For preparing cash book a particular sub-system is followed. All the receipts are recorded under debit side while the payments in the credit side.
- Though the cash book is known as the primary book of accounts, it acts as a prepared book.
- It can be ascertained from the cash book that how much cash have been received and paid up at different sources at a particular period.
- It is possible to know the cash balance by identifying the difference between cash received & cash paid.
- The chances of cash stolen, forgery, wastage and mistakes in recording reduce significantly.
- It is possible to have full control over cash money.

### Importance of Cash Book

The proper recording of cash transactions helps maintaining the movement of the business as well as helpful in taking proper decisions. We can know the total amount of cash receipts and payments, cash balance of particulars, amount of total cash purchase and sale. Whether the payment of cash is sufficient to

purchase items, to pay suppliers and regular expenses of the business or not. If not then each book helps in ascertaining the probable means to collect. It is possible to identify and verify the mistakes and corrections by comparing the cash balance with the actual cash on hand. Preparing particular type of cash book, it is also possible to know the bank transactions and bank balance.

**Activity:** What kind of cash book/ta can we go through preparing cash book?

### Classification of Cash Book

Various types of cash books are used in the business. The right type of book is selected depending on the nature and size of the business. Cash books being used for a long time are of five types.

1. Single Column Cash Book
2. Double Column Cash Book
3. Triple Column Cash Book
4. Petty Cash Book

Now a days most organisations are preparing following journal to substitute cash receipts and cash payments separately instead of traditional cash book.

1. Cash Receipt Journal
2. Cash Payment Journal

Students need to have a clear concept about each of the cash book. Its structure and its preparation are described below.

### Single Column Cash Book

Conventionally business of small size prepares single column cash book. Organisations that don't deal with bank either prefer cash transactions keep single column cash book. Since transactions through bank are rare, the number of bank expenditures and keeping accounts in the single column cash book is gradually decreasing.

### Format of Single Column Cash Book

Debit					Credit				
Date	Receipts	By Bk.	By P.	Amount Rs.	Date	Payments	By Bk.	By P.	Amount Rs.

Note: P. Bk. = Vendor (Supplier) and C/L = Ledger (Bank)

The format of a single-column cash book is like the 'T' format of a ledger. The table is divided into Debit and Credit where the receipts are recorded into the debit side while the payments are recorded into the credit side. Single column cash book is prepared with 11 columns where debit and credit sides have 5 columns each. Single column cash book always starts with debit balance because the payments cannot be more than the receipts but can be equal. The procedure of determining the balance is similar to the procedure of 'T' format of a ledger. During the settlement of bills and vouchers any document is allowed to record it is recorded in journal proper not in a single column cash book.

### Preparing Single Column Cash Book

Transactions of 'Star' Traders during June 2017 are the following:

- June
- 1 Opening cash in hand Rs. 1,500
  - 2 Additional capital brought in Rs. 10,000
  - 4 Purchased goods on credit Rs. 7,000
  - 4 Goods sold to Jambhale cash Rs. 1,500
  - 10 Took loan from Adarsh Rs. 15,000
  - 15 Received advance Rs. 1,000
  - 20 Received from Jambhale Rs. 5,000
  - 22 Withdrawal cash by the proprietor Rs. 2,000
  - 24 Payment transferred Rs. 1,000
  - 28 Salary paid to Jambhale Rs. 2,000

Prepare a Single Column Cash Book from the above transactions.

Star Traders's Single Column Cash Book

June									June
Particulars	Receipts	Dr. No.	To J.	Debit No.	May 31	Payments	Dr. No.	To J.	Debit No.
2017									
June 1	Balance b/f			1,500	June 2	Balance b/f			1,500
2	Adarsh			10,000	4	Goods sold to Jambhale			1,500
4	Purchase			7,000	10	Loan from Adarsh			15,000
4	Goods sold to Jambhale			1,500	15	Advance received			1,000
10	Loan from Adarsh			15,000	20	Received from Jambhale			5,000
15	Advance received			1,000	22	Withdrawal cash by proprietor			2,000
20	Received from Jambhale			5,000	24	Payment transferred			1,000
22	Withdrawal cash by proprietor			2,000	28	Salary paid to Jambhale			2,000
24	Payment transferred			1,000					
28	Salary paid to Jambhale			2,000					
				<b>30,000</b>					<b>30,000</b>
June 1	Balance b/f			1,500					

**Activity:** On 1st June 2017, Shri. Talib, Engineer started a business named Talib Enterprises with a capital of Tk.20,000. His transactions for the month were:

- June
- 1 Furniture purchased Tk.5,000
  - 3 Goods purchased on credit Tk.1,000
  - 4 Goods sold to Abdul Karim cash Tk.2,000

- June 7** Goods purchased \$1,400
- a. 9 Cash paid to supplier \$1,200
  - a. 11 Advertisement expenses paid \$1,000
  - a. 16 Stationery purchased \$100
  - a. 26 Commission received \$1,100
  - a. 28 Goods sold \$17,000

Prepare a single Column-Cash Book from the following transactions

### Double Column Cash Book

Organisations that deal with both cash as well as bank transactions prepare double-column cash book. The double column-cash book is more applicable and provides much information compared to a single column cash book. Apart from receipts and payments done in cash, the increase or decrease of cash or bank as well as bank balance can be obtained from a double column-cash book.

### Format of Double Column Cash Book

Debit							Credit				
Date	Particulars	V. No.	L.F.	Cash To	Bank To	Draw	Particulars	V. No.	L.F.	Cash To	Bank To

**Activity:** Identify the similarities & differences between Single and Double column-cash book.

If transaction increase the cash or bank, it is to be recorded into the debit column of debit side while decrease of the same will be recorded into the debit column of the credit side. If cheque received for goods sold or from debtor, it will be treated as a cleared cheque because a cheque issued in favour of the business is accepted as a bank or an open cheque. Both columns can include either debit or credit balance. Debit balance indicates bank deposit and credit balance indicates bank overdraft. Before preparing a double column cashbook, we need to know the following things:

### Cash or Entry

The transactions that influence both the cash as well as the bank account are known as mixed entry. Cash and bank both remain intact. So for a mixed transaction above account is debited the other account must be credited.

After giving proper credit to both sides of Cash/Book, the letter "C" may be written beside the name of both accounts to indicate:

**Activity:** Measure the transactions that jointly affect both Cash & Book accounts.

**Rules related to record transactions in double and triple column cash book.**  
**Cash deposited into the Bank**

Date							Credit				
Date	Example	V No.	L/F	Cash Tk.	Bank Tk.	Date	Example	V No.	L/F	Cash Tk.	Bank Tk.
	Cash to B/C				✓		Bank to B/C				✓

**Withdrawal cash from Bank for business purpose**

Date							Credit				
Date	Example	V No.	L/F	Cash Tk.	Bank Tk.	Date	Example	V No.	L/F	Cash Tk.	Bank Tk.
	Bank to Cash			✓			Cash to Bank				✓

**Deposited cheques (Multicolumn)**

Date							Credit				
Date	Example	V No.	L/F	Cash Tk.	Bank Tk.	Date	Example	V No.	L/F	Cash Tk.	Bank Tk.
							Deposited entry				✓

**Interest charges (Multicolumn)**

Date							Credit				
Date	Example	V No.	L/F	Cash Tk.	Bank Tk.	Date	Example	V No.	L/F	Cash Tk.	Bank Tk.
	Deposited entry				✓						

**Payment allowed by the bank**

Date							Credit				
Date	Example	V No.	L/F	Cash Tk.	Bank Tk.	Date	Example	V No.	L/F	Cash Tk.	Bank Tk.
	Bank to Cash (Interest fee)				✓						





**Activity:** Prepare a Cash Book on a separate. During the month of November 2017 following transactions took place:

Nov	1	Cash at hand/ft. 7,000 and cash at Bank ft. 5,000
	2	Goods purchased by cheque ft. 4,000
	4	Received a cheque from sale of goods ft. 6,000
	7	Withdraw from Bank ft. 1,000
	10	Cash from Bills receivable received by Bank ft. 3,000
	12	Cheque received from debtor deposited ft. 2,000
	20	Purchased furniture on cash ft. 2,000 and ft. 2,000 in cheque
	25	Withdraw by the proprietor ft. 2,500
	30	Bank allowed interest ft. 500

Record the transactions in the double column Cash Book and calculate the amount of cash & bank balance at the last date of the month.

### Treble Column Cash Book

Treble column cash book is prepared for transactions with cash and bank along with negotiating debits and credits. We can know about cash balance, bank balance, total discount allowed and total discount received. For collecting the amount of goods sold on credit goods by the seller allows the buyer cash kind of discount. This discount is known as cash discount. Discount received is an income for the buyer while discount allowed is an expense for the seller.

### Format of Treble-Column Cash Book

Debit												Credit			
Date	Particulars	ft.	Rs.	P.	ft.	Rs.	P.	Date	Particulars	ft.	Rs.	P.	ft.	Rs.	P.

There are total discount columns where debits and credits having 7 columns each on both side of a treble column cash book. Cash and bank columns are just like the double column cash book for recording cash increasing balances. The discount columns on either side of a cash book are recorded separately but the difference is not illustrated. Discount during the time of buying and selling, that is trade discount is not at all recorded.

**Preparing Tittle-Column Cash Book**

During the month of March 2017 following transactions took place in Rahim Traders—

March: 1	Cash at hand tk 18,000; Bank overdraft tk 2,000
... 5	Deposited in the Bank tk 5,000
... 6	Received cash tk 8,000 from buyers on full settlement of debt tk 7,000
... 10	A cheque received from Sam and discount allowed tk 100
... 14	Withdrew cash from business for personal use tk 500
... 18	Cheque sold for cash tk 12,000
... 18	Cheque purchased of tk 3,000 at a discount of 2%
... 20	Bank paid the amount of cheque payable tk 2,000
... 24	Cheque received from Sam tk 8,500 and discount allowed tk 500
... 30	Interest charged by the Bank tk 100

From the above information, prepare a Tittle-Column Cash Book.



**Activity:** Record the following transactions during July 2017 in Sarah Taylor's T-accounts Cash Book.

- July 1 Cash at bank £1,400 & Cash at hand £1,000
- " 6 Withdraw from bank £1,000
- " 8 Received £1,200 from James Jones and allowed discount £1,100
- " 9 Goods purchased from David Johns for cash £1,400 at a discount of 10%
- " 12 At a discount of 10%, the debt of £1,400 is fully settled.
- " 15 Cheque received from selling of goods £1,000
- " 20 £1,700 received from John Jones on full settlement of his debt £1,700
- " 25 Balance paid to cash £1,200 and cheque £1,000
- " 30 Total Cheque from bank £1,200

#### Illustration 44

Transactions of M/S General Trader on May 2017 were

- May 1 Cash at hand £1,000
- " 3 Received from Shreehari Rs. 2,000
- " 4 Withdraw from business for personal requirements £1,500
- " 6 Repair cost paid for old furniture £1,200
- " 10 Purchased from Kulkarni for cash £1,000
- " 14 Interest received of investment £1,500
- " 20 Goods sold for £1,000.
- " 25 Salary paid £1,000.
- " 28 Received £1,200 against Debt receivable & paid £1,000 for Debt payable

Prepare Single Column Cash Book for the above transactions

**Solution:** M/S General Trader's Single Column Cash Book

Date	Particulars	Rs.		Amount Rs.	Date	Particulars	Rs.		Amount Rs.
		to	by				to	by	
2017					2017				
May 1	Balance b/f			1,000	May 1	Balance b/f			1,000
" 3	Received from Shreehari			2,000	" 3	Shreehari Rs. 2,000			2,000
" 4	Withdrawal from business			150	" 4	Personal			1,500
" 6	Repair cost			1,200	" 6	Business			1,200
" 10	Purchased from Kulkarni			1,000	" 10	Debt receivable Rs. 1,200			1,200
" 14	Interest received			1,500	" 14	Interest exp.			1,500
				<u>2,000</u>	" 20				<u>2,000</u>
May 1	Balance b/f			1,000					



All in One.												
Grade 6 Math Workbook												
Unit	Topic	Lesson	1	2	3	4	5	6	7	8	9	10
Unit 1: Fractions	Fractions	Fractions	1	2	3	4	5	6	7	8	9	10
	Decimals	Decimals	1	2	3	4	5	6	7	8	9	10
	Percentages	Percentages	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
Unit 2: Geometry	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
Unit 3: Fractions	Fractions	Fractions	1	2	3	4	5	6	7	8	9	10
	Decimals	Decimals	1	2	3	4	5	6	7	8	9	10
	Percentages	Percentages	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
Unit 4: Geometry	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
Unit 5: Fractions	Fractions	Fractions	1	2	3	4	5	6	7	8	9	10
	Decimals	Decimals	1	2	3	4	5	6	7	8	9	10
	Percentages	Percentages	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
Unit 6: Geometry	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
Unit 7: Fractions	Fractions	Fractions	1	2	3	4	5	6	7	8	9	10
	Decimals	Decimals	1	2	3	4	5	6	7	8	9	10
	Percentages	Percentages	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
Unit 8: Geometry	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
Unit 9: Fractions	Fractions	Fractions	1	2	3	4	5	6	7	8	9	10
	Decimals	Decimals	1	2	3	4	5	6	7	8	9	10
	Percentages	Percentages	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
Unit 10: Geometry	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
Unit 11: Fractions	Fractions	Fractions	1	2	3	4	5	6	7	8	9	10
	Decimals	Decimals	1	2	3	4	5	6	7	8	9	10
	Percentages	Percentages	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
Unit 12: Geometry	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
Unit 13: Fractions	Fractions	Fractions	1	2	3	4	5	6	7	8	9	10
	Decimals	Decimals	1	2	3	4	5	6	7	8	9	10
	Percentages	Percentages	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
Unit 14: Geometry	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
Unit 15: Fractions	Fractions	Fractions	1	2	3	4	5	6	7	8	9	10
	Decimals	Decimals	1	2	3	4	5	6	7	8	9	10
	Percentages	Percentages	1	2	3	4	5	6	7	8	9	10
	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5	6	7	8	9	10
	Statistics	Statistics	1	2	3	4	5	6	7	8	9	10
Unit 16: Geometry	Area	Area	1	2	3	4	5	6	7	8	9	10
	Volume	Volume	1	2	3	4	5	6	7	8	9	10
	Mass	Mass	1	2	3	4	5	6	7	8	9	10
	Temperature	Temperature	1	2	3	4	5	6	7	8	9	10
	Time	Time	1	2	3	4	5	6	7	8	9	10
	Money	Money	1	2	3	4	5					

### Cash Receipt Journal

All cash & cash equivalent received in transactions record in Cash Receipt Journal to know the total cash inflow of a specific period of time. Cash equivalent means cash is in a cheque or A/c M and used in transaction. The Cash Receipts Journal is prepared such a way that it's easy to understand each source of cash received.

#### Cash Receipt Journal

Date	Account Credited	Debit	Cash Debit	Debit Debit	Notes Credit	Debit Credit	Other Account Credit

**Date** : The date when receiving of cash will occur

**Account Credited** : When debit will be received from the debitors then the name(s) of the debitor(s), and when there will be income from (projected source(s)) the name(s) of that source(s) will be recorded.

**Debit**:

1. **Cash** : In this column, the total amount of cash receipts (Cash or cheques) will be recorded.

2. **Debit** : If amount is received concerning from debitors, the amount of amount will be recorded in this column.

**Credit**:

1. **Sales** : Goods sold on credit are presented in this column.

2. **Debit** : The total amount of cash received from debitors & discount allowed as transactions recorded in this column.

3. **Other Account** : Except from goods sold on credit and received from debitors the other receipts are recorded in this column.

### Preparing Cash Receipt Journal

The following receipts are occurred in May 2017 in Shadytree & Co:

May 5 : Cash sold for cash tk 10,000.

→ 8 : Cash received from Shady Trees tk 1,000

→ 10 : Receipted cash capital of tk 1,000

→ 15 : Received tk. 1,000 from Zaman & Son. which introduced for debt of tk. 1,000

→ 30 : Sold old furniture tk 1,000



### Multipliers & Company's Cash Receipt Journal

Date	Account Credited	Amount	Cash Debit	Discount Debit	Sales Credit	Other Credit	Check No.
2017 May 2			12,000		12,000		
• 5	Shelly Taylor		1,000			1,000	
• 10	Typical		1,000				1,000
• 15	Sam Wilson		1,000	100		900	
• 20	Partners		1,000				1,000
			22,000	100	12,000	2,900	2,000

Observing the above cash receipt journal, the total Debit amount  $(22,000 + 100 = 22,100)$  and the total Credit amount  $(12,000 + 1,000 + 900 = 13,900)$ . These two totals have to be equalled always.

### Cash Payment Journal

All cash & cash equivalent payments or transactions recorded in Cash Receipt Journal to know the total cash outflow of a specific period of time.

#### Cash Payment Journal (Format)

Date	Check No.	Cash Account	Debit	Purchase Credit	Discount Credit	Other Account Credit	Discount Credit	Check No.

- Date** : The date on which transactions will occur is recorded.
- Check No.** : If payment is made through cheque then cheque no. is recorded in this column.
- Debit Account from** : If an entry is paid to bank and when payments made to other party then name will be recorded in this column.
- Debit-**
- 1. Purchase** : Goods purchased on cash are recorded in this column.
  - 2. Creditors** : Payments made to creditors and discounts received from them (less its sum is recorded in this column).
  - 3. Other Accounts** : Except goods purchase to cash and payments made to creditors, the other items that relates to cash payments are recorded in this column.
- Credit-**
- 1. Discount received** : During the time of payments made to creditors, the amount of discount received is recorded in this column.
  - 2. Cash** : All cash or cheque payments are recorded in this column.



### Total Cash Receipts & Total Cash Payments Transfer of Ledger

By preparing Cash Receipt Journal and Cash Payment Journal we can determine the total amount of cash receipts and cash payments. Cash book is prepared for summarizing the cash balance into one account. Opening cash balance of a previous year is added to the cash receipts while the cash payments are deducted from it to ascertain the closing cash balance.

#### Cash Receipt Journal

Date	Account Credited	Debit	Cash Debit	Debit Credit	Sales Credit	Amount Receipts Credit	Other Receipts Credit
2017							
May 1	Capital (Owner)		20,000			20,000	
" 2	Revenue (Sales)		7,500	100		7,400	
" 10	Bill. re. (Accounts)		1,000				1,000
" 15	Dividend		5,000		1,000		
" 20	Bank		10,000		1,000		
			43,500	100	2,000	28,400	1,000

#### Cash Payment Journal

Date	Charge To	Account Debited	Debit	Debit Credit	Debit Credit	Debit Credit	Cash Debit
2017							
May 1		Revenue (Sales)			1,000		1,000
" 2		Revenue (Sales)	1,000				1,000
" 8		Market Service		1,000		100	900
" 10		Interest			1,000		1,000
" 20		Freight			1,000		1,000
			1,000	1,000	2,000	100	8,000

#### Cash Receipts

#### Cash Payments

Date	Particulars	Dr	Debit To		Credit By	
			Dr	Cr	Dr	Cr
2017						
May 1	Balance b/d				20,000	
" 30	Total Cash Receipts		43,500			43,500
" 31	Total Cash Payments			11,000	32,500	

**Bank Account related Transactions**

Increasing transactions take place in today's business. Transactions made through cash are very safe. Transactions accepted through bank are very safe. For making transactions through bank at first, a bank account needs to be opened. A person or firm who opens a bank account is known as a depositor.

**Bank Statement**

The statement that is made by bank mentioning the full details of the depositor is known as bank statement. Nowadays this statement is done by computer. Money or cheque deposited into bank, money withdrawn from bank or payment made through bank, bank interest or bank charge including all other information are available chronologically as a bank statement. Apart from recording in a bank statement, a depositor also keeps records of all transactions related to bank as a cash book and identifies balance. The balance of a bank statement and the bank balance of a cash book should be substantially equal. However, as always, the balance may not be equal, and then bank reconciliation statement is required to be prepared.

**Bank Reconciliation Statement**

The statement that is prepared for identifying the differences between the balance of bank statement and bank balance of cash book is known as bank reconciliation statement.

The reasons for differences between the balance of bank statement and the bank balance of cash book:

- The collection of cheques through bank, if it is not collected in the time there will be a sort-of difference between the balance.
- A cheque issued for clearing of debts, if not produced before the bank at due time there will be difference.
- If bank on behalf of its client makes any payment or receive any collection without informing the client, there will be difference.

**Activity:** Identify the other reasons for difference between the balance.

## Exercise

### Multiple Choice Questions

- Deposits being the primary form of payment, which one marks this a permanent fund?
  - Journal
  - Ledger
  - Cash Book
  - Debit Balance
- Will be recorded in cash book:
  - Capital brought in Rs. 50,000
  - Sold to Bansa Traders Rs. 20,000
  - Stationery goods purchased Rs. 1,000

Which one is correct of the following?

  - a, b & c
  - b & c & d
  - a, b & d
  - a, b, c & d
- Which one will be recorded as single column cash book?
  - Goods purchased by cheque Rs. 1,000
  - From sale purchased Rs. 1,000
  - Goods drawn 1,000
  - Goods returned Rs. 500
- Which balance does single column cash book always show?
  - Debit
  - Credit
  - Bank deposits
  - Bank overdraft
- Received a cheque for selling goods, what type of cheque is this?
  - Bank cheque
  - Order cheque
  - Crossed cheque
  - Opened cheque
- Which letter is used while writing number using?
  - B
  - C
  - K
  - P
- Contrasting is --
  - Cash deposited to bank
  - Debit directly deposited into bank
  - Draw from the bank for business needs

Which one is correct of the following?

  - a, b & c
  - b & c & d
  - a & b & c
  - a, b, c & d
- Which document is recorded in the single column cash book?
  - Purchase document
  - Cheque document
  - Order document
  - Bank document

9. Will be recorded in cash receipt journal :-  
 (a) Goods purchased in cash  
 (b) Goods sold in cash  
 (c) Bank interest allowed

Which one is correct of the following?

- (a) A is (b) B is (c) C is (d) A, B & C

10. Which one record will be cash payment journal?  
 (a) Sale of inventory (b) Debt received  
 (c) Loan paid (d) Goods sold

11. The entries that appear in both ledger for bank, what is that called?

- (a) Debit (b) Debit and Credit  
 (c) Credit (d) Debit and Credit

12. Accounts that are affected by the Cash entry

- (a) Capital account  
 (b) Cash account  
 (c) Bank account

Which one is correct of the following?

- (a) A is (b) B is (c) C is (d) A & B

Read the following passage and answer the questions no. 13 and 14:

On July 14, 2017 Subashish K. have deposited Rs. 10,000 into bank account, used to finance. Same day cheque of Rs. 200 in full settlement of his debt to T. 1,000, now used a cheque from Mahesh Banker Rs. 14,000 in full settlement of his debt to T. 4,000

13. Which bank book is suitable for recording the transactions of 14<sup>th</sup> July 2017?

- (a) Single column (b) Double column  
 (c) Triple column (d) Cash receipt journal

14. What is the amount of cash entry of Subashish K. Bank?

- (a) Rs. 10,000 (b) Rs. 12,000  
 (c) Rs. 14,000 (d) Rs. 12,000

Read the following passage and answer the questions no. 15 and 16:

Cashier of Mahesh Bankers records all bank of cash receipt and cash payments in the cash book. On 17 March, 2017—Goods purchased Rs. 20,000 and paid in cash Rs. 10,000. On 28 March 2017 received from Kaka Rs. 5,000 in full settlement of his debt Rs. 15,000.

- 14 What is the actual amount of debt of Helen's Enterprise?  
 a) R 25,000 b) R 20,000  
 c) R 15,000 d) R 5 000
- 15 IncrediblyCash book should not record the transactions of which BP?  
 a) Single Column b) Double Column  
 c) T-type Column d) Prep

### Creative Questions

1 On May 2017 the following transactions occurred in the 'M5' Debt in 'Clothes' at 'Indepor' at 'Shale'.

May 1 Opening cash in bank R 60,000

- 4 2000 pairs clothes sold at R 150 at 'Tops Traders', Credit in Cash following 9% discount.
- 10 Clothes purchased from 'Shale Clothes' Palace R 80,000
- 13 Returned from 'Tops Traders' R 40,000
- 18 Shop Rent paid in advance R 30,000
- 20 Clothes worth R 1,000 taken for owner's daughter
- 25 Electricity bill paid for the month of April R 2 000.

a) Give General Journal Entries for the May Cash Transactions

b) Prepare a Cash Sheet for the transactions dated May 15

c) Prepare a single-column L cash sheet from the mentioned transactions

2 Some transactions in June 2017 are as follows of 'Brooks Traders' 'Camperay'.

June 1 Business started with cash R 1,20,000 and by depositing in Bank R 2 00,000

- 3 Buying goods R 1,00,000 from 'Brooks Traders' paid R 20,000 credit R R 80,000 by cheque.
- 5 A photo-copy machine purchased for business use value of R 70 000
- 8 Withdraw from Bank, for personal use R 5,000 and the business use R 10,000
- 15 Paid R 1,000 for 'Camperay' rent and installation cost of photo-copy machine.
- 18 Bill Receivable R 20,000 entered and Bill Payable R 15,000 paid by Bank

- 21 Cheque received from Phoenix stores & Rs. 11,000 and Deposit allowed & Rs. 1,000
- 26 Allowing 10% discount paid & Rs. 20,000 in cash & Rs. 10,000 by issuing cheque to Jyoti Brothers.
- 30 Bank interest allowed & Rs. 200 and charged & Rs. 1,000
  - a) Debit the cost of the Insurance of "Shree" Truck
  - b) Prepare a Cash balance cash book with the transactions occurred on June 1 to June 15.
  - c) Prepare a Credit balance cash book with the transactions occurred on June 16 to June 30 considering the opening cash at hand & Rs. 20,000 and bank balance & Rs. 60,000

3. On March, 2017 Transactions of Modern Stores, Rajahmundry are as follows

March 1 Cash/Paid & Rs. 11,000

- 3 Goods purchased in cash & Rs. 10,000 & by cheque & Rs. 11,000
- 8 Goods sold & Rs. 48,000 10% by cheque and remaining amount in cash
- 10 Cash & Rs. 4,000 and cheque & Rs. 1,000 Withdrawn for personal needs
- 11 Loan taken from bank & Rs. 50,000
- 14 Paid by cheque (no bill) to Krishna & Rs. 20,000 as full settlement of the debt & Rs. 10,000
- 17 Received from Rupa & Rs. 24,250 as settlement of the debt & Rs. 20,000.
- 21 Shop rent & Rs. 20,000 paid by cheque. cheque no. 001001
- 27 Sold old computer off business & Rs. 8,000
- 31 Interest allowed by bank & Rs. 1,000
- a) Determine the nature of transactions which will not reflect in Cash Receipts & Cash Payment Journal
- b) Prepare a Cash Receipts Journal from the above transactions
- c) Prepare a Cash Payments Journal from the above transactions for the month of March at Modern stores.

4. On March, 2017 Transactions of Prabha Traders are as follows

March 1 Cash/balance & Rs. 7,500

- 4 Goods purchased from Suresh Traders in cash & Rs. 1,000 allowing 1% discount.
- 8 Goods sold & Rs. 15,000
- 10 Cheque purchased for Insurance & Rs. 1,000
- 11 Additional Capital brought in & Rs. 40,000 as loan by the owner



- 100 28 Paid to Add Tenders to 2,500
- 101 29 Depreciation charged on forklift-truck, 200
- 102 30 Sold old forklift to 3,000
- 103 31 To 1,400 (withdrawn for payment is at 1,400) withdrawn of business bank
- 104 38 Bank interest and service charged to 500 and to 1,000 respectively
- 105 a) Write the General Journal Entries (without explanation) which transactions will not involve cash bank
- 106 b) Prepare a single column cash Book of Prabhu Traders with the transactions occurred on March 1 to March 31
- 107 c) Prepare a double column cash Book with the transactions occurred on March 1 to March 31 considering the opening cash in hand is, 40,000 and Bank overdraft is 10,000

5. On August, 2017 The following transactions are occurred in 'Main Enterprise'

- Aug. 1 Cash balance and Bank Balance respectively is 10,000 & 20,000
- 2 Cheque received from Rajat Traders for selling goods is, 7,000
  - 3 Withdraw from bank is, 2,000
  - 4 10 Goods purchased is, 2,000 (Discount, 2%)
  - 5 12 Received from Jaijit Traders is, 2,000 as full settlement of the debt. is, 2,000.
  - 6 15 Goods purchased from Sujat & Sons in cash is, 2,500
  - 7 20 Paid to Sakuna Traders is, 1,500 and Discount received is, 200
  - 8 25 Bank credited is, 10,000 paid
  - 9 28 Interest on Bank provided is, 500 paid.
  - 10 31 Debited is, 1,000 for bank charge
- a) Determine the total amount of Credit Entry from the above information
  - b) Prepare a Double Column Cash Book with the transactions occurred on August 1 to August 31
  - c) Prepare an applicable cash book entry with the transactions occurred on August 1 to August 31 considering the opening cash bank is, 10,000 & Bank Crd is, 10,000

4. The following transactions occurred at Eider & Sons during November 2017

- Nov 1    Sold goods on credit to cash & 4 000 allowing 2% Discount.  
 "    4    Received from Muller & 2 000 and Discount allowed & 100  
 "    5    Calculator purchased for office & 500  
 "    6    Interest received from Investment & 4000  
 "    12    Paid by bank & 2 500 in full settlement of his claim & 1,500  
 "    18    Paid office rent & 2 000  
 "    28    Loan taken & 10,000  
 "    29    Goods purchased from Samal Traders by cheque & 10,000 allowing 1% discount cheque as 9,900

a) Determine the contents of Cash Book and from the above information.

b) Prepare a Cash Receipts Journal from the above transactions

c) Prepare a Cash Payments Journal from the above transactions

7. On January, 2017 The following transactions occurred at Eider Brother's Business

- Jan. 1    Cash Balance & 10,000 & Goods received & 25 000  
 "    3    Goods purchased from Hira Traders & 10,000 allowing 2% discount.  
 "    5    Tk. 1 500 taken by the owner from business  
 "    10    Paid to bank & 1,500 as full settlement of his claim & 5,000  
 "    15    Goods purchased by cheque & 2 000  
 "    20    Salary paid to Employees & 4,000  
 "    25    Cheque bought from bank & 10,000 for business with own money  
 "    28    Received from Sonam & 2,000 and Cheque paid & 1 50  
 "    29    Paid to Hira Traders & 2,000 as full settlement of his claim & 5,000  
 "    30    Keeping & 2,500 as fund the remaining amount deposited in to bank

a) Give the Journal Entries (without Payables) of these transactions that will not be included in cashbook.

b) Prepare a Table column cash book with the transactions occurred on January 1 to 30, 16

c) Prepare a Cash Payments Journal with the transactions occurred on January 1 to January 31.

## Chapter Nine

# Trial Balance

From the perspective of the financial statements, knowing the results of financial activities of a business concern at the end of the year, it is badly needed to ensure that all the transactions of the period have been recorded and posted correctly in the books of accounts of the organization. If the books of accounts are prepared without verifying the arithmetical accuracy, the prepared statements may not convey true information of the organization. A trial balance is prepared with the balances of ledger books with due and careful consideration of all possible errors of recording process in books of accounts. If the posting has been done accurately and the computations of account balances have been corrected, the total of all debits should be equal to the total of credits. In order to prove the accuracy that the trial of accounts with debit balances agree with the total of credit balances, a statement or trial balance is prepared. Errors can easily be identified and necessary steps for rectifying them can easily be taken through preparation of trial balance.



**At the end of this chapter, we will be able to:**

- ascertain the arithmetical accuracy of the posting of entries in books accurately.
- find out the systematic and disorganized between debit and credit balances through recording the errors.
- explain the accuracy of using suspense account.
- make agreement between the balances temporarily by opening suspense account.

### Concept of Trial Balance:

A trial balance is a list of debit and credit balances extracted from the ledger including the balances of cash and bank columns of the Cash Book as a particular date. When the total of debit becomes equal to total of credit/balances of the Trial Balance, generally it is assumed that there is no arithmetical mistake in the Ledger and Cash Book. Otherwise, there might be some sort of error and mistakes following double entry system of accounting.

### Objectives of Trial Balance:

The main objectives of the preparation of trial balance are as follows:

1. Verification of giving the correct amount and ledger accurately is one of the prime objectives of trial balance.
2. The first step in preparation of the Statement of Comprehensive Income and the Statement of Financial Position.
3. To discover the mistakes and verify the errors, if any, present in the activities of maintaining journal and ledger.
4. To verify whether both the debit and credit aspects of the transactions under double entry system have been recorded properly on the basis of accounts.
5. To bring together all the balances of accounts in one place in order to facilitate the preparation of final accounts and reduce the wastage of labour and time thereby.
6. Trial balance summarises the information in the financial statement.

**Activity:** To test the arithmetical accuracy of the accounts is the main objective of Trial Balance-accounts.

### Preparation of Trial Balance:

Name of the organisation \_\_\_\_\_

Trial Balance

As at \_\_\_\_\_ 20\_\_\_\_

Serial Code No.	Name of the Account/Particulars	L.F.	Debit Total	Credit Total

Since trial balance is neither any part of accounting nor a compulsion to prepare thereof, it does not have any recognised pre-form to follow. Moreover, IASB (International Accounting Standards Committee) has not yet designed any specific pre-form for preparing trial balance. The above table is popularly used as specimen format for trial balance.

**Brief explanation of different columns of a Trial Balance is given below:**

- 1. Serial/Code No.:** If there is any code no. of accounts then, that code no. is put, otherwise the serial no. of ledger accounts are written in this column. Such as 1, 2, 3 etc.
- 2. Name of the Account/ Particular:** The full name of ledger accounts whose serial numbers have been written in the first column are put in this column. Such as capital, loan, bank, etc.
- 3. L.F. (Ledger Folio/Page):** The page/page of the ledger, where the balance of the concerned accounts are shown, are written in this column. By doing so errors can easily be identified and rectified.
- 4. Debit Balance:** The amounts of the debit balances of the ledger accounts are written in this column.
- 5. Credit Balance:** The amounts of the credit balances of the ledger accounts are written in this column.

### Procedure of preparing Trial Balance

Transactions are recorded chronologically in Journal primarily. Later on balance of each account calculated after transferring their percentage in ledger with square account title. Without preparing the journal, transactions can also be posted directly in ledger and then the ledger accounts are balanced as well. After calculating all ledger account balances the trial balance prepared in a separate sheet of paper or book matching all debit balances on the debit column and credit balances on the credit column.

### Factors to be considered in preparing Trial Balance

Primary objective of trial balance is to test and verify the arithmetical accuracy of accounts and that is why special attention is given and also some important factors are considered in case of excluding/balances from ledger to trial balance.

1. It is necessary to be careful about the recording of stock of goods. Value of opening stock of goods recorded in debit column as expense in Trial Balance for the date is prepared for.

2. While 'Adjusted purchase' or 'Cost of goods sold' include in trial balance, then closing stock of goods will be shown in debit column of trial balance as assets without including opening stock of goods because Adjusted purchase = Opening stock of goods + Net purchase - Closing stock of goods.

3. In case of assets of stationary, opening stock of stationary has to be shown in debit column of Trial Balance but the closing stationary will not be included.

4. Opening balance of current assets & current liabilities i.e. bank in hand, bank balance, debtors, creditors etc. will not come in Trial balance because these are adjusted with corresponding closing balance.

5. Reserve created against assets, such as: final debt reserve or provision for doubtful debts, provision for discount on debtors or provision for discount on debtors or provision for discount payable and provision for discount on bills receivable record in credit of trial balance.

6. Reserve created against liability too, such as: provision for discount on creditors or provision for discount receivable and provision for discount on bills payable. As per the 'convention' conventions of Accountancy, it is inappropriate to charge provision against liabilities. If such provision are found in accounts, it may work in debit column of trial balance. It is best to stop charging provision on liabilities.

7. Income account till paid or received are not mentioned. In the case they are considered as expense and written on the debit side of trial balance. Such as, rent, discount, advertisement, interest etc.

8. Sales ledger balances are considered as ready debtors and put on the debit side.

9. Purchase ledger balances are considered as ready creditors and put on the credit side.

10. Contingent liability and unexpired income are not included in trial balance because business is not confirmed about their certainty. They are shown in the Foot note.

If any disagreement is found, even after taking all necessary credit entries, then suspense account is opened temporarily to equal debit and credit column. Suspense account is not a permanent head of account rather it is a temporary arrangement.

**Activity:** Find out the accounts which are not included in trial balance.

### Procedure of preparing a Trial Balance taking ledger balances as consideration

Where only ledger balances are given in the absence of ledger, the following rules should be followed to ascertain which of the balances will be written in the debit column and which will be written in the credit column of a trial balance.

The Ledger balances which are written in the debit side of Trial Balance	The Ledger balances which are written in the credit side of Trial Balance
all the assets, Land, building, furniture, property, machinery, firm's type, inventory, bank balances, debtors, prepaid cost of land, cost of stock, etc.	all liabilities, creditors, bank payable, bank overdraft, loan, etc.
all expenses, Purchase wages, opening stock, salary, advertisement, rent, commission expense, office expenses, depreciation, bad debt, and discount allowed. Expense paid is debited. Income paid is debited. sales paid is debited. net paid is debited as it is not a source of income. Income is credited as it is source from that type of activity, property.	all types of income and profits, sales, interest received, discount received, appreciation premium, return on investment, income on bank deposit, etc.
Reserve paid is debited. Reserve paid is debited as it is not a source of income. Reserve is credited as it is source from that type of activity, property.	Reserve received is credited. Reserve received is credited as it is source from that type of activity, property.
Interest received is credited. Interest received is credited as it is source from that type of activity, property.	Interest received is credited. Interest received is credited as it is source from that type of activity, property.
Other items, sales return, loss allowed, opening.	Other items, purchase return, capital, opening.

### It is not detected in Trial Balance:

Even after taking all necessary necessary measures, there might be some accidental errors which lead to discrepancy in trial balance. These errors are not detectable in trial balance and rectify the trial balance. Such errors are:

- Errors of Omission:** While passing from journal to ledger, if mistakenly either has been given in the ledger but corresponding credit has not been given in the ledger account or vice versa. Moreover if any balance influenced is not included in trial balance then it will not appear. Example: Cash paid to Bank on Th. 3000

Journal      Bank Recd. A/C — Or Dr. 3,000

                    Cash A/C ———— Cr. Th. 3,000

At the time of transferring this to ledger, accidentally it was so happens that only Balance A/C or Cash A/C is transfer or only the balance of one account is transferred to trial balance.

1. **Error of Omission:** Writing debit amount of the account on the credit side of the concerned ledger account or Writing credit amount of the account on the debit side of the concerned ledger account at the time of posting from journal to ledger. Both sides of trial balance will also not agree, if any transaction repeated twice with same side of one account by mistake. Example:

**Journal**

Balance Sheet, A/C — Dr Rs. 5,000

Cash A/C — Cr Rs. 5,000

If Balance A/C — Dr is shown as credit along with Cash — A/C on ledger or Cash A/C — Cr is shown as debit along with Balance A/C — Dr

2. **Mistake in amounts of money:** While posting from journal to ledger, if accidentally get debiting and crediting both the accounts of a transaction with the same amount. That is, writing more or less amount in the ledger accidentally while posting from journal. Example: Salary paid Rs. 2,000. Mistake is shown as

Salary A/C — Dr Rs. 2,000

Cash A/C — Cr Rs. 20,000

Oh, while posting in ledger. Mistake in Salary A/C is shown as Rs. 20,000 and Cash A/C is shown as Rs. 2,000 while posting in ledger.

4. **Error in Balancing of Ledger Accounts:** When a try to make a balancing the ledger account the trial balance will not agree. Example:

### Cash A/C

Dr				Cr			
Date	Particulars	JF	Total	Date	Particulars	JF	Total
2011				2011			
Feb 1	Capital A/C		1,00,000	Feb 1	Particular A/C		20,000
Feb 5	Salary bill		20,000	Feb 10	Postman bill		10,000
				Feb 15	Bank A/C		15,000
				Feb 18	Salary A/C		5,000
				Feb 20	Balance C/D		50,000
			1,20,000				1,20,000
Feb 27	Balance B/D		40,000				

The trial with above described two mistakes of a ledger account, it is shown as Rs. 40,000.



8. **Mistake in transferring ledger balances to trial balance:** While transferring the ledger balances to the trial balance, wrongly writes the debit balance as credit and vice versa.

**Example:** “Even if the trial balance agrees, we cannot be certain that there were no errors in accounts.” Do you agree? Illustrate your example.

**Reason and identifying the Trial balance**

Agreement of trial does not ensure the hundred percent error freehood of accounts. Usually arithmetical accuracy is ensured if trial balance agrees. But there may be some types of mistakes, which will not be detected by a trial balance. These are called **drawbacks or limitations of trial balance**. This type of error is divided into two major types.

The detailed description of errors given below:



### 1. Clerical errors:

(a) **Errors of omission:** If any transaction is not at all recorded then the amount of the transaction will not be recorded in concerned ledger accounts and/or if the transaction is not transferred from journal to ledger then both the columns of trial balance will be valued by equal but lower amount of money. Such as goods sold to Maheshwari Brothers, but not at all, recorded in sales journal and ledger. But Trial balance will agree.

(b) **Errors of commission:** If any transaction is recorded in primary books of accounts by lower or higher amount of money then such lower or higher amount will also be recorded in the ledger concerned and thus the trial balance will agree as well. Such as goods sold to Ram Dayal of Rs. 1,000. If it is recorded in Sales journal as Rs. 50,000 then both Sales A/C and Ram Dayal A/C will be higher valued by the amount of Rs. 49,000 and Trial balance will agree.

(i) **Errors of mis posting:** Such errors are those because of the carelessness of employees. Suppose Rs. 20,000 has been entered in cash from **Ramesh Traders**. Cash book is correctly debited with Rs. 20,000 but while posting to the ledger **Ramesh Traders** account is credited in place of **Ramesh Traders** account. Trial Balance will agree because the total of credits has been the same, though the amount has been credited to a wrong account. Trial balance will agree in this case also.

(ii) **Compensating errors:** If one mistake is corrected by another mistake then it is called **Compensating errors**. Such as **Global Traders A/c** is supposed to be debited with Rs. 5,000 but it has been debited with Rs. 500. In another account **Samir Traders A/c** was credited with Tk. 500 by mistake, instead of Rs. 5,000. In both the accounts will be less by the same amount i.e. Rs. 4,500. But Trial balance will agree for this error.

Finally it should be noted that, for the above four errors both debit and credit columns of trial balance will be equal but some mistakes.

**3. Errors of principle:** Errors which are those due to the lack of proper accounting knowledge or violations of fundamental accounting principles are known as errors of principle. When Capital expenditure is recorded as Revenue expenditure and vice-versa is an example of such errors. For example:

- (i) Machine purchased Rs. 50,000  
wrongly purchased entered instead of machine account
- (ii) Repair of machine Rs. 5,000  
wrongly machine account debited instead of repairs account

**Accountants identify and describe the errors and mistakes which may not be detected even if trial balance agrees.**

**Method of detecting an incorrect Trial Balance.** If both sides of the trial balance do not agree then it can be understood that there are some mistakes in the accounting process. So the cause of this disagreement is to be found out but there is no hard and fast rule to correct an incorrect trial balance. In many cases the following reasons can be taken:

- (1) Verify the totals of the two columns in trial balance.
- (2) Check whether all the balances of ledger accounts have been correctly entered in the trial balance.
- (3) Check whether posting of the debit and credit balances have been correctly done in the appropriate column of the trial balance.

- (3) Check whether posting from Journals to the ledger accounts has correctly been done.
- (4) Check whether balance of any account posted to trial balance with changed amount or wrong column.
- (5) Find out the difference between the totals of the two columns of the trial balance is divisible by 2 (that is, if not, then it is to be noted if there is any mistake occurred in the trial balance and whether the amount is placed in the right place or trial balance).
- (6) Check whether the balances of assets, liabilities and owner's equity account throughover page correctly transferred to correct page i.e. right.

In spite of the above mentioned steps taken, if the mistakes or errors are not be detected, then the amount by which the trial balance disagreed should be given "Suspense Account" for the time being. Subsequently, when the errors will be detected, there will be rectified through suspense A/C which will be closed after rectification of errors.

### Suspense Accounts

Finding out the errors is necessary when totals of both the sides of trial balance do not agree. But at most of the cases the detection and rectification of errors take long time. So it is not rational and feasible to keep the work of preparation of final accounts pending for both a long time. Under the circumstances, disagreement of both the sides of trial balance is made equal through Suspense Account for time being. It is just a temporary scheme rather a kind of temporary arrangement. If the total of credit side of trial balance becomes less than that of debit side, the suspense account will be shown on the credit side and vice versa. Afterwards, when the errors are detected the suspense account is closed through correction of those errors.

**Activity:** How the disagreement of both sides of trial balance can be solved?

### Example-1:

Following Ledger balances of 31 March 2017 got from the account book of Mithun Traders:

Cash- 1,17,000, Capital- 1,00,000, Sales- 40,000, Debit- 4,000, Purchase- 30,000, Salary- 3,000, House rent expense-3,000, Wages expense-3,000 prepare a trial balance as on 31 March, 2017

**Subtotal:**

**Monica Taylor's**  
**Trial Balance**  
**31 March 2017**

Serial No.	Name of accounts	L. F.	Debit Side	Credit Side
1	Cash		1,10,000	
2	Capital			1,00,000
3	Sales			40,000
4	Merchandise		1,000	
5	Purchase		20,000	
6	Salary expense		1,000	
7	Insurance expense		1,000	
8	Wages expense		1,000	
	<b>Total</b>		<b>1,34,000</b>	<b>1,42,000</b>

**Example-3**

From the following Ledger Balance of M/S Mohit traders, prepare Trial Balance as on 31 December 2017

Name of accounts	Total	Name of accounts	Total	Name of accounts	Total
Capital	10,000	Insurance	1,000	Expenses	1,000
Bank C. i. D.	10,000	Business expense	500	Interest paid	500
Sales	10,000	Cash sales	500	Shop expense	4,000
Cost of Sales	500	Cash in hand	1,000	Interest received	1,000
Land & Building	10,000	Purchase	20,000	Share issued	500
Wages expense	10,000	Cost of Sales	500	Dividends	1,000
Debtors	10,000	Purchase	1,000	Cashier	10,000
Commission	1,000	Interest on bill	1,000	Share received	1,000
Equipment	10,000	Cash received p. i. D.	4,000	Bank charge	1,000
Transportation	5,000	Bank overdraft (B.O.D.)	10,000	Dividend received	500

## Solutions

**2018 Sales, Profits  
Trial Balance  
As at 31 December 2018**

credit	Name of Account	d.d.	Debit Total	Credit Total
1	Capital			40,000
2	Bank (1,000,000)		1,000,000	
3	Notes			4,000
4	Prepaid rent		400	
5	Land and building		20,000	
6	Notes		10,000	
7	Patents		10,000	
8	Depreciation		1,400	
9	Machinery		10,000	
10	Transportation		5,000	
11	Insurance		2,400	
12	Trade accounts		800	
13	Cash		100	
14	Interest Receiv.		1,000	
15	Profits		20,000	
16	Transportation		500	
17	Patents		1,000	
18	Notes Receivable		1,000	
19	Depreciation		1,000	
20	Notes received			400
21	Notes Receivable		1,000	
22	Insurance Expenses		1,000	
23	Notes received		400	
24	Notes Payable			4,000
25	Profits			4,000
26	Notes received			1,000
27	Notes charge		1,000	
28	Interest received			400
	Total =		1,011,000	1,011,000

**Task:** Multiple choice: prepare Trial Balance correctly as on 31 December 2017, on the respective proper selected Trial Balance.

Serial no	Name of accounts	L P	Debit Total	Credit Total
1	Opening Stock		85,000	
2	Capital		1,20,000	
3	Purchase			80,000
4	Sales			1,20,000
5	Commission received		10,000	
6	Salaries Expense		20,000	
7	Rent Expense			12,000
8	Post paid		5,000	
9	Machinery		2,000	
10	Patrons			14,000
11	Debtors		40,000	
12	10% mortgage loan		10,000	
13	Closing stock		95,000	
14	Bank interest			2,000
15	Transfer to Reserve			80,000
			2,12,000	2,12,000

## Exercise

### Multiple Choice question

- What is the objective of preparing Trial Balance?
  - To determine financial position
  - To verify the mathematical accuracy
  - To determine profit or loss
  - To identify work load
- Balance of Trial Balance will be recorded
  - Capital
  - Drawings
  - Bank interest
  - Which one is correct?
  - i & iii
  - ii & iii
  - i & ii
  - ii & iii
- Which one is reported from other than?
  - Appropriation statement
  - Appropriation provision
  - Insurance provision
  - Financial Taxes

4. Balbe recorded as Trial Balance

- a) Opening credit
- b) Opening cash balance
- c) Opening cash balance

Which one is correct?

- a) A is
- b) B is
- c) C is

A is B is

A is B is

5. In a Trial Balance, debit balance of 100 is wrongly recorded into credit side. If all other things remain same what will be the difference of both sides of a Trial Balance?

- a) Tk. 100
- b) Tk. 200
- c) Tk. 100
- d) Tk. 200

A Tk. 100

A Tk. 200

6. When does Suspense account appear in Trial Balance?

- a) Debit Balance
- b) Credit Balance
- c) Difference between debit and credit column
- d) Sum of debit and credit column

A Credit Balance

A Sum of Debit and credit column

7. Balbe account debited is 1,000 for selling Furniture, the type of error is-

- a) Error of omission
- b) Wrong entry
- c) Compensating error
- d) Error of principle

A Wrong entry

A Error of principle

8. But which error both side of trial balance will agree?

- a) Purchase Account is 100 debited as credit
- b) Salesman's Account debit not appear
- c) Purchase Account debited for salesman's purchase
- d) Drawing Account debited with tk. 100 instead of tk. 1,000

A Purchase Account is 100 debited as credit

A Salesman's Account debit not appear

A Purchase Account debited for salesman's purchase

A Drawing Account debited with tk. 100 instead of tk. 1,000

9. Salaries are ignored with tk. 1,000 instead of tk. 1,200 and sales account instead with tk. 4,200 instead of tk. 2,000. What type of error is this?

- a) Error of Principle
- b) Error of Commission
- c) Error of Omission
- d) Compensating Error

A Error of Principle

A Error of Commission

A Error of Omission

A Compensating Error

10. The error which will cause suspense account to rise-

- i) Purchase machine Tk. 10,000 recorded Purchase account with Tk. 10,000
- ii) Cash purchase Tk. 10,000 recorded Purchase Account with Tk. 10,000
- iii) Sales to Customer Tk. 1,000 recorded Customer Account debit Tk. 10,000

i) Purchase machine Tk. 10,000 recorded Purchase account with Tk. 10,000

ii) Cash purchase Tk. 10,000 recorded Purchase Account with Tk. 10,000

iii) Sales to Customer Tk. 1,000 recorded Customer Account debit Tk. 10,000

Which one is correct?

- a) A is
- b) B is
- c) C is

A is B is

A is B is





- In the Trial Balance of Jaldi-Ramgopal, which balance(s) are not recorded and what amount of that?
- Show the above balance regarding Trial Balance.
- Determine Current Assets and Current Liabilities.

3. Accountant of M/S. Sahai & Co. prepared a Trial Balance but there are some mistakes in that. Indicative Trial Balance is as follows.

**Trial Balance**  
as at 31st December, 2003

S. No.	Accounting Title	L. F.	Debit Total	Credit Total
1	Opening Stock		50,000	
2	Provision		1,00,000	
3	Salary		10,000	
4	Cash/Bank		40,000	
5	Debtors		10,000	
6	Stock Balance			45,000
7	Return Inward		5,000	
8	Freight			5,000
9	Bills Payable		20,000	
10	Losses Taken			15,000
11	Bad Debt		10,000	
12	Dividend received			10,000
13	Capital			40,000
14	Sales			1,40,000
15	Return Outward		5,000	
16	Insurance			5,000
17	Bad Debt			5,000
18	Allowance for Doubtful Debt		5,000	
	<b>Total</b>		<b>1,14,000</b>	<b>1,14,000</b>

- Calculate the amount of Capital Receipts of M/S Sahai & Co.
- Calculate the amount of Return Receptions from the above information.
- Prepare the Correct Trial Balance Considering the case of M/S Sahai & Co.

4. Following Ledger balances of Old Company are supplied as on 31 December 2017 for the purpose of mathematical and accuracy verification.

	Total		Total
Capital	54,000	Trading Allowance	3,000
Cash at hand 31/12/17	25,000	Export duty	12,500
Receivable	22,000	Discount received	11,000
Payable	45,000	Investments	11,000
Income Tax	18,000	Dividend received	500
Purchase	1,28,000	Partners	40,500
Sales	1,40,000	Opening Stock	12,000
Bank Received	10,000	Closing bank balance	14,000
Closing Stock	22,000	Return inward	1,000

- Determine trial account that will not be included in the Trial Balance of Old Company
- Prepare Trial Balance of Old Company considering above information
- Calculate capital income and capital expenditure considering above information

5. Following ledger balances of Sankar Enterprise as on 31 December 2017 are as follows.

Accounting Title	Total	Accounting Title	Total
Capital	1,11,000	Stationery	1,000
Unearned Income	40,000	Utility expenses	75,000
Saving Certificate	1,00,000	Service Revenue	1,10,000
Bank loan	11,000	Bank loan	1,00,000
Interest on loan	30,000	Commercial expenses	1,35,000
Dividend Revenue	4,000	Accounts Receivable	25,000
Supplier expenses	14,000	Municipal & Tax	18,000
Printer & Telegraph	11,000	Advertisement payable	11,000

- Calculate the amount of Capital from above information mentioned above
- Determine the amount of closing stock and balance of Sankar Enterprise
- Prepare a Trial Balance from the above information

d. Following ledger balances of 'Devi Enterprises' as on 31 December, 2017 are as follows:

Accounting Title	Debit	Accounting Title	Credit
Capital	1,00,000	Mortgage loan	1,00,000
Trade Debt	1,44,000	Purchase	1,44,000
Sales	4,60,000	Accounts Receivable	1,01,800
Drawings	18,000	Prepaid Rent	60,000
Interest Outward	1,000	Income Tax	9,000
Advance rent received	6,000	Deferred Advantages	11,800
Prepaid Insurance	9,000	Closing stock of goods	11,000
Opening stock of goods	30,000	Accounts payable	41,800
Interest Inward	11,800		

- Determine the amount of Adjusted Purchase from the above information.
- Prepare a Trial Balance of Devi Enterprises.
- Determine the amount of Closing Owner's Equity of Devi Enterprises.

# Ten Chapter

## Financial Statement

Every business organisation prepares Financial Statements to know the financial position at the end of the definite period. There are two aspects of financial statement i.e. Assessment of financial result of specific period and i.e. final result. Individuals need help by it's specific data for a business organisation. The statement which is prepared to ascertain the profit and loss of the business is known as the Statement of Comprehensive Income and the statement prepared to ascertain the assets & liabilities is called the Statement of Financial Position which was previously known as Balance Sheet.



Picture: Graph indicating of Profit and Loss

At the end of this chapter, we will be able to:-

- differentiate between the transactions of capital and revenue nature and write explanation of the differentiation in preparation of financial statement.
- prepare the Statement of Comprehensive Income and also be able to explain the profit and losses.
- prepare the financial statement and differentiate between the nature of fixed and current assets, long term and current liabilities.
- understand how capital transactions can be affected through the issue of bonds and mortgages, withdrawal of capital in the business or not profit and losses.
- understand the necessity of construction of fixed assets and plant and machinery for short term.
- apply depreciation in financial statement by understanding the meaning, objectives and sources of depreciation.
- understand the need for evaluating the state of affairs as well as the necessity of ratio analysis.
- introduce and analyse different types of ratios, the meaning and profit ratios, return ratios and profit to capital ratios, current assets and current liabilities ratios etc.
- prepare the comprehensive income statement and corporate figures between two years and understanding the changes of financial position.

### Financial Statements

First type of financial statements are prepared to expose the financial position and condition of the business as per International Accounting Standards These Financial statements help the creditors, bond holders and other accounting information users to make economic decisions by providing accounting information of financial results, financial position and cash flow. The Financial statement is an important tool to evaluate managerial efficiency and overall condition of the organisation. Following 3 types of financial statement is prepared according to the International Accounting Standard-01 (IAS-01):

1. The Statement of Comprehensive Income
2. The Statement of Changes in Equity
3. The Statement of Financial Position
4. The Statement of Cash Flows
5. Note: comprising a summary of significant accounting policies and other explanatory information provided in the financial statement

In summary stage (Class 7 & 10) the concept and process of preparation of first 3 parts of financial statements are discussed:

#### The Statement of Comprehensive Income

Revenue income & expenditure are recorded in comprehensive income statement. Its revenue providing business organisation net profit is found after subtracting various providing expenditure from various revenue. On the other hand, in manufacturing business gross profit is found after subtracting cost of goods sold from the amount of goods sold. And operating profit is found after subtracting operating expenditure from gross profit. That profit before tax is found after adding other incomes & subtracting other expenses with operating profit. However as sole proprietorship business owner profit considered as owner's income, hence the business net payment considered as owner's personal expenses. So, in manufacturing income statement of net expenditure net profit before tax is considered as net profit without subtracting business net expenses.

### **Objectives of the Statement of Comprehensive Income**

- (1) We can know net profit and loss from comprehensive income statement. The owner that can not claim success of the net profit. Because, following success of net profit means the break down of capital structure, which may lead to severe interruption of future business activities of the firm.
- (2) By analyzing different income and expenditures of the Statement of Comprehensive Income, we can know how to increase net profit of a firm by increasing future income and decreasing expenditures.

### **Preparation of the Statement of Comprehensive Income (Merchandising business)**

The Statement of Comprehensive Income is prepared in each year for a particular period of time. The income is determined by deducting the expenditures from the income of that year.

### **Preparation of the Statement of Comprehensive Income (Manufacturing business)**

For a merchandising business, main source of income is Sales. It is the main operating income. There are some other income too, such as, commission received, rent received, interest received from the bank etc. Operating expenses are manager's salary, travelling & conveyance expenses, repairing & maintenance expenses, fuel cost, depreciation, insurance expense etc. Statement of Comprehensive Income is prepared usually in three stages.

**In first stage,** Gross Profit is calculated by deducting Cost of Goods Sold from Net Sales.

**In second stage,** Operating profit is calculated by deducting operating expenses from Gross Profit.

**In third stage,** Adding other incomes with operating profit and from the sum of them less interest & loss expenses will be deducting to calculate Net profit.



**Sample table of the Statement of Comprehensive Income  
(abbreviating amounts)**

(Name of the reporting entity)  
**Statement of Comprehensive Income**  
For the year ended on 31.12.2019

Description		T€	T€	T€
<b>Revenues</b>				
<b>Less: Sales returns</b>			(100)	
	<b>Net sales</b>			10000
<b>Less: Cost of goods sold</b>				
<b>Opening stock</b>			1000	
<b>Purchases</b>		1000		
<b>Less: Purchase returns</b>		(100)		
	<b>Net purchases</b>		1000	
<b>Carriage (freight)</b>			100	
<b>Import duty</b>			100	
			<u>2200</u>	
<b>Less: Closing stock</b>			(1000)	
	<b>Gross Profit</b>			<u>(200)</u> 10000
<b>Less: Operating Expenses</b>				
<b>Carriage Outward</b>			1000	
<b>Salaries</b>			1000	
<b>Office rent</b>			1000	
<b>Office electricity</b>			1000	
<b>Office Expenses</b>			1000	
<b>Insurance premium</b>			1000	
<b>Depreciation of fixed assets</b>			1000	
<b>Telephone &amp; telegrams</b>			1000	
<b>Advertising</b>			1000	
<b>Research</b>			1000	
<b>Freight Expenses</b>			1000	
<b>Traveling Expenses</b>			1000	
<b>Insurance Expenses</b>			1000	
<b>Depreciation of Fixed Assets</b>			1000	
<b>Interest paid on long term borrowings</b>			1000	
<b>Dividend &amp; interest on</b>			1000	
<b>Long term</b>			1000	
<b>Short term</b>			1000	
<b>Change in tax &amp; provisions for doubtful debts</b>		1000		
<b>Less: (Increase) Decrease in tax &amp; provision for doubtful debts</b>		(1000)		
<b>(Increase) Decrease in tax &amp; provision for doubtful debts</b>				
<b>or</b>				
<b>Add: (Decrease) of provision for doubtful debts (or increase)</b>		1000		
<b>(Increase) Decrease in provision for doubtful debts</b>			1000	
	<b>Operating profit</b>			<u>(200)</u> 10000



Particulars	Debit	Credit	Total
<b>Other Income</b>			
Trade discounting of short notes		1000	
Interest on government		1000	
Dividend received		1000	
Interest on bank loan		1000	
Interest from bank deposit		1000	
Commission received		1000	
Government revenue		1000	
Dividend received		1000	
			7000
<b>Less: Other Expenses</b>			
Loss from selling of short notes	1000		
Interest on debenture	1000		
Interest on bank loan	1000		
Interest on bank deposit	1000		
Trade discount given	1000		
			5000
<b>Net Profit/Loss</b>			2000

**Activity:** Fill in the gaps (marked (i) to (iv)) with correct figures

Particulars	Debit	Cost of goods sold	Operating expenses	Gross profit/loss	Net profit/loss
A.	10,000	7,000	1,000	?	?
B.	1,000	?	1,000	500	?
C.	15,000	?	1,000	?	1,000
D.	?	11,000	?	4,000	2,000

**Gross expenditure is discussed below.**

- Cost of goods sold: Total of the expenses incurred on the goods sold during a period is known as the total expenditure or called cost of goods sold.  $\text{Cost of goods sold} = \text{opening stock} + \text{purchases} + \text{other expenses related with purchases} - \text{closing stock}$ . These other expenses related with purchases include carriage inward, import duty etc.

- 2) **Intangible Assets of Business:** like Building, Machinery, and Stock-in-trade are located against their depreciation in any condition. Premium is to be paid to Insurance Companies at regular intervals. This Premium is treated as business expense.
- 3) **Depreciation:** Reduction of fixed asset value from continuous use. This reduction is called depreciation. Changes in shape, model, usage, loss, keeping assets unused for a long time also cause depreciation.
- 4) **Bad debts:** In case of credit sales, the amount which is confirmed to be not realized from debtors is called bad debt. The reason of bad debt is death, bankruptcy, absconding of debtors.
- 5) **Provision for Bad & Doubtful Debt:** The amount of debt which may not be realized as called doubtful debt, which is a probable loss and will be included in operating expense.

Some incomes are discussed below:

- 1) **Dividend income:** Expense of necessary income is sometimes received as share or other companies. Dividend received from Shares is considered as other income.
- 2) **Interest income:** Additional income which are deposited at bank or insurance for profitable returns and get some benefits called interest.

### Procedure of preparing Statement of Changes in Equity

Statement of Changes in Equity is prepared to ascertain the closing balance of owner's equity at the end of the accounting period. To ascertain this, the additional concept of capital, net profit/loss and drawings are adjusted with the opening balance of owner's equity. A sample table of Statement of Changes in Equity is shown below:

Part of the regular statement

#### Statement of Changes in Equity

For the year ended on \_\_\_\_\_

Particulars	Total	Total
Capital (Opening Balance)		₹ 1000
Add: Additional capital employed		₹ 1000
(Cash paid) (Gifted loan)		₹ 1000
		₹ 2000
Less: Drawings	₹ 500	
Income Tax	₹ 500	₹ 100
Add: General reserve		₹ 500
<b>Equity (Closing Balance)</b>		<b>₹ 2000</b>

### The Statement of Financial Position

To know the financial position of a business ending end of year, the Statement of Financial Position is prepared with all assets and liabilities and capital. One can know the amount of fixed or current assets, long or short term liabilities and capital of the business from the Statement of Financial Position. Various decisions can be taken by analysing this information. for example, we can know proportion of fixed over assets, if current assets are sufficient to meet current liabilities, proportion of net profit over capital employed, etc.

### Procedure of preparing the Statement of Financial Position

Information is recorded in the Statement of Financial Position in two stages. Assets are shown, dividing into two types in first stage: i.e. 1) Fixed assets, 2) Long term investments. 3) Current assets & 4) Prepaid assets. Liabilities and capital are shown in the second stage. Liabilities are divided into two types: 1) Long term liabilities & 2) Current or Short-term liabilities.

Assets & liabilities are measured in the statement of financial position under two methods: i.e. 1) Permanent-preference method & 2) Liquidity preference method. In permanent preference method Fixed assets are shown at the beginning of accounting year. Investment, prepaid assets & Short-term assets are written chronologically from after. After long term liabilities are shown at the beginning & current liabilities are shown at the end & Current liabilities. Contrary, liquidity preference method is opposite of permanent preference method. However, If there are any Prepaid assets, it will be shown at the end of all assets.

### Importance of classification of assets and liabilities

Different assets are of different nature and they have various objectives in business. It is necessary to know how quickly an asset will be realised, how quickly a liability will be paid for the sake of efficient management of assets. And thus it will be necessary to put emphasis on individual assets and liabilities.

**Fixed Assets:** Fixed Assets are those which are used in the business for long term. Such as, goodwill, land, buildings, machinery, furniture etc.

**Current Assets:** Current assets are those assets which can be converted into cash within one accounting period e.g. cash & bank balances, debtors, stock of goods etc.

**Long term Liabilities:** Liabilities which are taken for a long period of time is called long term liabilities e.g. Bank loan, mortgage loan, debentures etc.

**Current Liabilities:** Liability for which a payable's realisation accounting period is called current liabilities e.g. creditors, outstanding expenses, interest accrued on borrowed money, bank overdraft etc.

## Performance of statement of financial position

Scope of the working firm—

Statement of financial position

At 31-12-2019 Date

Particulars	Total	Total	Total
<b>Fixed Assets</b>			
Land & building (net of accumulated depreciation)		10000	
Furniture (net of accumulated depreciation)		2000	
Office equipment (net of accumulated depreciation)		5000	
Motorcars (net of accumulated depreciation)		2000	
Land & building (net of accumulated depreciation)		10000	
<b>Total Fixed assets</b>			27000
<b>Long-term investments</b>			
Government securities			2000
<b>Current Assets</b>			
Cash & bank & cash at hand		10000	
Debtors	10000		
Less: Unexpired portion of doubtful debts	2000		
<b>Net Realizable</b>		8000	
Inventory		2000	
Prepaid Insurance		2000	
Prepaid Rent		2000	
Prepaid Interest		2000	
Prepaid Taxes		2000	
<b>Total Current assets</b>		18000	
<b>Equity &amp; Liabilities</b>			
Share Capital			10000
Reserves & Surplus			
General Reserve		10000	
Retained Earnings		10000	
<b>Total Equity</b>			20000
<b>Current Liabilities</b>			
Accounts Payable		10000	
Short-term Debt		10000	
<b>Total Current Liabilities</b>		20000	
<b>Total Equity &amp; Liabilities</b>			40000

### **Application of accounting principles (preparation of statement of financial position)**

In preparation of the Statement of Comprehensive Income and the Statement of Financial Position, certain accounting principles are followed. In order to measure income/profit or loss and to determine the accurate value of assets and liabilities following principles must be followed:

1. **Business entity concept:** Under this concept the business is said to be quite distinct from its proprietors. Only the firm incurs all accounts are kept in the name of the business and not in the name of the proprietors. That is why, capital supplied by the proprietor is the liability of the business and drawings by the proprietor are his own expense and reduce the value of capital.

2. **Going concern concept:** Under this concept, it is taken into consideration that the business will continue for an indefinite period of time and is not regarded for a limited period. That is, a business will run for unlimited period and there is no plan to stop business. In the light of this concept, the incomes and expenses are divided into capital and revenue nature. Capital items are used to prepare the Statement of Financial Position. According to this concept, depreciation is calculated over the life span of fixed assets. If this concept does not exist it is not possible to prepare financial position and the need of charging depreciation.

3. **Periodicity concept:** According to going concern concept there is no specific period of business. But we can't stop the unlimited period to know the financial position of business. For this reason, to know the financial condition of each year we have to prepare comprehensive income statement and statement of financial position. Unlimited period of business can be divided into equal small parts. This small part is called periodicity. Generally periodicity is taken for one year.

4. **Accrual concept:** According to this concept, at the time of preparing Statement of Comprehensive Income, outstanding revenues are added to the related expenses which have been paid and outstanding expenses are added to related incomes which are already received during the concerned accounting year. Over and above accrued incomes and prepaid expenses are shown as liabilities/contingent liabilities account head.

**5. Conservatism principle:** According to this principle, no obvious profit has to be recognized. That is recognizing no profit but providing for all possible losses. It means provision should be created if there is any possibility of loss or future, but recognized profit should not be taken into consideration unless and until it is realized. If profit is declared or distributed then anticipation, then it is as if the basic down of capital of the business reflecting not only after loss to the company within the financial year the concern. As per conservatism principle the loss and doubtful debt is considered as expenses. And closing stock is valued at cost or market price whichever is lower.

**6. Cost price principle:** Under this principle, fixed assets are shown in the financial statement based on their historical cost that is on the price when they were purchased. Fixed assets are not shown at the current market price because they are not purchased for trading rather for long term use in business. Cost price means amount paid for acquiring capital/asset and other necessary expenses made to make the asset ready for the business.

**7. Consistency principle:** According to this principle, books of accounts are prepared and maintained following the same methodology each and every year. This is because of comparison and analysis between the years and inter-organization. Otherwise, true financial picture cannot be given.

**8. Materiality assumption:** Under this assumption, recording of transactions is done through using knowledge, experience and intelligence of the accountant. Accountant has to consider the relevant is irrelevant in the time of recording the transaction. For example, check, cheque cashiers, petty cashbook, vouchers etc. are bought to use long span of time in business but since they are lower in price and the value of these items are comparatively lower. At the end of accounting period these items are going to be recorded as specific part's expense account not as assets though it has been written as assets in the primary books of accounts.

Adjustments to be considered at the time of preparing statement of Financial Position:

### 1. Adjustments of closing stock of goods:

Value of closing stock of goods is calculated at the end of accounting period of a business organisation. Adjusting entry for this is as follows:

Closing stock of goods	Debit
Purchase return account	Debit
Cost of goods sold	Debit
Opening stock of goods	Credit
Purchase account	Credit
Carriage inward account	Credit

It is reasonable that through the above adjusting entry Cost of goods sold account & Closing stock of goods account are created which is required to prepare financial reports.

### 2. Outstanding Expenses:

After preparation of trial balance it will be found that wages are due Tk. 500. Then according to the accrual concept Tk. 500 will be in Statement of Comprehensive Income because this expense is relating to current accounting period. The same amount will be shown in the Statement of Financial Position as current liability. Adjusting entry for this is as follows:

Wages A/c	Debit
Wages Payable A/c	Credit

### 3. Expenses paid in Advance/Prepaid Expenses:

At the end of the year, it is found that house rent for Tk. 600 paid in advance. According to matching concept this prepaid rent will be deducted from the total house rent and shown in the Statement of Comprehensive Income because this expense is not relating to current accounting period. The same amount will be shown in the Statement of Financial Position as current assets. Adjusting entry for this is as follows:

Prepaid house rent A/c	Debit
House rent A/c	Credit

#### 4. Accrued Income

At the end of the year it is found that interest on government F.T's 400 has been earned but not yet received. According to generally accepted GAAP it will be shown in the Statement of Comprehensive Income as income. The interest receivable will be shown in the Statement of Financial Position as current asset. Adjusting entry for this is as follows:

Interest receivable (non-current asset) A/c	Debit
Interest on government F.Ts A/c	Credit

#### 5. Income Received in Advance/Unearned Income.

Suppose, in the first half year of current accounting period, rent received has been shown as Rs 10,000. Out of this amount Rs 5,000 received in advance for next year. This prepaid rent of Rs 5,000 will be deducted from the rent received Rs 10,000 actual rate received for this year Rs 5,000 will be shown in the Statement of Comprehensive Income and Rs 5,000 will be shown in the Statement of Financial Position as current liability. Adjusting entry for this is as follows:

Rent and revenue A/c	Debit
Advance rent and revenue A/c	Credit

#### 6. Depreciation

Depreciation is the reduction of value of an asset i.e. buildings, machinery etc. owing to its use or other causes. Such reduction in loss known as depreciation and it will be shown as operating expenses in the Statement of Comprehensive Income. For example Plant and machinery is shown in the trial balance of Tk. 10,000. Depreciation on plant and machinery is to be charged @ 10% p.a. 10% depreciation will be  $(10,000 \times 10\%) =$  Tk. 1,000 will be shown as operating expenses in the Statement of Comprehensive Income. The same amount will be deducted from plant and machinery as accumulated depreciation in the Statement of Financial Position. Adjusting entry for this is as follows:

Depreciation expense A/c	Debit
Accumulated Depreciation A/c	Credit

#### 7. Bad debts & Provision for doubtful debts.

Normally credit sale is a source of profit for business as credit is that debtors receive in hand in the end of financial accounting period. Occasionally all debtors are not capable of paying their debts. A part of debtors is kept under bad debts &



provision for doubtful debts, account to determine correct profit of a business organisation at the end of accounting period. When any debtor fails to pay their debts, then it's identified as bad debt. Different writers have suggested bad debt directly subtracting from debtors, but in this textbook the procedure of recording bad debt through Provision Method is shown with illustration.

With the following illustration recording of bad debts written off & bad debt provision explained. Let's pass, its trial balance. Debtors is 20,000, opening balance of bad debt & provision for bad debt is 1,000. One of the debtors failed to pay for debt is 1,000 due to financial emergency. Proper Adjusting Entry & effect on Balance Accounts are shown further.

**Adjusting entry for this is as follows.**

1) Bad debt & provision for doubtful debt account	Debit	is 1,000
Debtors account	Credit	is 1,000
(Bad debt is 1,000 written off)		
2) Bad debt expense $(20,000 - 1,000) = 19,000$	Debit	is 1,900
Bad debt & provision for doubtful debt account	Credit	is 1,900
(Bad debt & provision for doubtful debt changed to Debtors 19%)		

**Effect of Bad debt & Provision for doubtful debt is related accounts**

#### Debtors Account

Balance B/D	20,000	Bad debt & provision for doubtful debt account	1,000
		Balance C/D	49,000
	<u>20,000</u>		<u>50,000</u>

#### Bad debt & Provision for doubtful debt account

Debit	1,000	Balance B/D	1,000
Balance B/D	2,900	Bad debt expense	1,900
	<u>3,900</u>		<u>2,900</u>

#### Bad debt expense Account

Bad debt & provision for doubtful debt account	1,900		
--	-------	--	--

Bad debt & Provision for doubtful debt are shown in Comparative Income Statement & Statement of Financial Position

**In Comparative Income Statement**

Closing liabilities & provisions for doubtful debts amount	(25,000 + 100) = Rs.	2,500
Less: Opening liabilities & provisions for doubtful debts amount	1,000	
(+) Bad debts written off	1,000	
		<u>1,000</u>
		1,200

**In Statement of Financial Position:**

Debit:	Rs. 1000
Less: Bad debts written off	(1,000)
	<u>Rs. 1000</u>
Less: Closing liabilities & provisions for doubtful debts	(2,500)
	<u>Rs. 1500</u>

**Analysis:** Opening balance of provision for bad debts Rs. 1,000 in the year 2017. At the end of the year, when the Rs. 10,000 happened that an amount percentage of debtors may not be collectible. Now, much loss to be shown in comparative income statement and here, much and the current debt, in the statement of financial position.

For the benefit of students some of journal transactions are given below:

**Illustration: 2**

**Prepare Comparative Income Statement, Statement of Changes in Equity and Statement of Financial Position, from the Trial Balance & other information of 'Alpha & Associates of Chartered Accountant Mr. A. R. Khan'**

**Alpha & Associates****Trial Balance****31 December 2017**

S. No.	Name of Accounts	L/F	Debit Total	Credit Total
1	Capital			1,00,000
2	Office Equipments		1,00,000	
3	Service books		1,25,000	
4	Reserves			1,75,000
5	Office rent		2,75,000	
6	Electric & Telephone Expenses		10,000	

7	Cash on hand		50,000	
8	Investment (Share)		1,200,000	
9	Dividend received			40,500
10	Advance Audit fees			60,000
11	Complement Expense		3,000	
12	Insurance Expense		6,000	
13	Salary & Allowance		60,000	
14	Bank deposit		1,000,000	
15	Drawings		40,000	
			<u>1,320,000</u>	<u>1,320,000</u>

(1) Audit of Accounts is completed at an expenditure, which left it 50,000 net yet realized

(2) Office rent for the first month

(3) Change expenditure 20% on office equipment

#### Audit & Accounts

#### Complement Expense Statement

for the year ended 31 December 2017

Name of Account	Total	Total	Total
<b>Income.</b>			
Audit fees	6,00,000		
Add: Audit fees receivable	50,000		
		6,50,000	
Dividend received		40,500	
<b>Total Income</b>			6,90,500
<b>Less Expenses</b>			
Office rent	1,70,000		
Add: rent due	30,000		
		2,00,000	

Traveling & Telephone Expense		34,500	
Conveyance Expense		3,800	
Insurance Expense		6,700	
Salary & Allowance		40,000	
Depreciation on Office Equipment		25,000	
			1,70,000
<b>Net Profit</b>			<b>1,70,000</b>

**Notes to Accounts**  
**Statement of Changes in Equity**  
**as on 31 December 2017**

	Total	Total
Capital	1,70,000	
Add: Net profit	1,70,000	
		3,40,000
Less: Dividend		(20,000)
<b>Opening Equity as Closing Capital</b>		<b>3,20,000</b>

**Notes to Accounts**  
**Statement of Financial Position**  
**for the year ended 31 December 2017**

	Total	Total	Total
<b>Fixed Assets</b>			
Office Equipment	2,20,000		
Less: Accumulated Depreciation	(20,000)		
		2,00,000	
Current Assets		1,10,000	
<b>Total fixed Assets</b>			<b>3,10,000</b>
<b>Long-term Liabilities</b>			
Shareholders (Share)			3,10,000

<b>Current Assets</b>			
Accounts receivable		55,000	
Bank balance		1,400,000	
Cash on hand		75,000	
		<u>1,530,000</u>	
<b>Total Current Assets</b>			1,530,000
<b>Total Assets</b>			<u>1,530,000</u>
<b>Owner's Equity &amp; Liabilities</b>			
Owner's Equity (M. J. JONES)			7,34,000
<b>Current Liabilities</b>			
Accounts Payable	60,000		
Office supplies	70,000		
	<u>1,30,000</u>		
<b>Owner's Equity &amp; Total Liabilities</b>			<u>1,530,000</u>

**Illustration 12**

Accountant of Arth & Associates prepared the following Trial Balance

Trial Balance  
31 December 2017

	Debit Total	Credit Total
Partners' Accounts	1,17,000	1,17,000
Accounts receivable	4,000	5,000
Building	(20,000)	
Equipment owned	10,000	
Equipment sold out	500	
Insurance premium	8,000	
Advertisement expenses	1,500	
Cash at Bank	1,50,000	
Capital		1,00,000
Debtors	7,000	
Creditors		10,000
Machinery	1,40,000	
Land	4,12,000	
10% Loan (Payable in 2020)		1,00,000
Accumulated Depreciation		20,000
Prepaid Rent last date		500
<b>Total (31 December 2017)</b>	<u>2,79,000</u>	<u>2,79,000</u>

**Adjustments:**

- Closing stock cost price 5,000 Taka, market value 4,000 Taka,
- Depreciate 10% on Machinery,
- Salaries are due 5,000 Taka,
- Proportional insurance premium 1,500 Taka,
- Charge provision for bad debt 10%,
- Interest on loan is due.

You are required to prepare Comparative Income Statement, Statement of Changes in Equity and Balance Sheet for the year ended 31 December 2017 and Statement of Financial Position as on that date.

**Solution:**

**Article 8: Bank**  
**Comprehensive Income Statement**  
**for the year ended 31 December 2017**

	Taka	Taka	Taka
<b>Net sales</b>			
Gross Sales		1,20,000	
(-) Return		1,000	
<b>Less: Cost of goods sold</b>			1,10,000
Opening stock		1,000	
Purchase	1,40,000		
(-) Return	(1,000)		
(+) Closing stock	1,00,000		
	1,00,000	1,00,000	
		1,00,000	
			1,00,000
<b>Gross profit</b>			1,00,000
<b>Less: Operating cost</b>			
Salary	20,000		
Electricity	1,000	20,000	
Carriage outward		500	
Advertisement expense		1,500	
Insurance expense	1,000		
(-) Freight	(1,500)		
Depreciation $(2,00,000 \times 10\%)$		1,500	
<b>Charge before it provision for doubtful debt is made</b>	700	20,000	
<b>Less: Opening/old debt is provision for doubtful debt</b>	(2,000)	700	
			19,300
<b>Operating profit</b>			1,19,300

Less: Other expenses			
Insurance loss (1,000,000 ÷ 10%)			(1,000,000)
<b>Net profit</b>			<b>75,000</b>

**Article 41: Seven**  
**Statement of changes in equity**  
**For the year ended 31 December 2017**

	<b>Total</b>	<b>Total</b>
Capital	8,000,000	
Add: Net profit	75,000	
<b>Equity (31/12/2017)</b>		<b>8,075,000</b>

**Article 42: Seven**  
**Statement of Financial position**  
**as at 31 December 2017**

	<b>Total</b>	<b>Total</b>	<b>Total</b>
<b>Fixed assets</b>			
Machinery	2,400,000		
Less: Accumulated Depreciation	(60,000)	1,340,000	
Land		(673,200)	
<b>Total fixed assets</b>			<b>6,066,800</b>
<b>Current Assets :</b>			
Cash and Bank		11,000	
Debtors	1,000		
Less: Doubtful debts & provision for doubtful debts	(300)		
		6,700	
Prepaid Insurance		2,500	
Closing stock		5,000	
<b>Total Current Assets</b>			<b>20,200</b>
<b>Total assets</b>			<b>6,087,000</b>
<b>Owner's Equity &amp; Liabilities</b>			
<b>Owner's Equity (31/12/2017)</b>			<b>8,075,000</b>
Long-term liabilities			
Less: Payments at 31/12/17		(1,000,000)	
Short-term liabilities			
Creditors	1,00,000		
Interest-bearing Loans	1,00,000		
Interest due	5,000		
<b>Total current liabilities</b>		<b>25,000</b>	
<b>Total Liabilities</b>			<b>1,05,000</b>
<b>Owner's Equity &amp; Total Liabilities</b>			<b>8,180,000</b>

**Illustration 3**

From the following information you are required to prepare Companies' revenue Statement & Statement of Changes in Equity for the year ended 31 December 2017 and Statement of Financial Position for the first of August 2018.

**Agnes Traders****Trial Balance****31 December 2017**

Name of the accounts	Debit Total	Credit Total
Opening stock	15,000	
Purchases and sales	75,000	1,31,000
Bank Charge	10,000	
Carriage received	5,000	
Carriage outward	5,000	
Commission received		100
Balance	24,000	
Advance received	10,000	
10% Investment	20,000	
Debitors' Bank	5,000	
Debitors and Creditors	20,000	17,000
Import duty	5,000	
Rent receiv	5,000	
Office expenses	5,000	
Electricity expense	5,000	
Inventory and Capital	40,000	1,34,000
Sales return & Purchase return	5,000	4,000
Bank overdraft		10,000
Debitors' commission	5,000	
Discount allowed & discount received	1,000	600
Partners	30,000	
Machinery	75,000	
Interest on Investment		100
Interest on Bank overdraft	1,000	
<b>Total</b>	<b>1,34,000</b>	<b>1,34,000</b>

**Adjustments:**

- Opening stock (31/12/16) is 40,000
- Office expenses are due for 1,000
- Unpaid expenses 5,500
- Export duty is 5,000



## Solution

**Arpan Traders**  
**Comparative Income Statement**  
**For the year ended 31 December 2017**

	Total	Total	Total
<b>Sales</b>		27,000	
(+) Return		(1,000)	
<b>Less: Cost of goods sold</b>			1,00,000
Opening Stock		50,000	
Purchases	70,000		
(-) Return	(2,000)		
		78,000	
<b>Cost of goods sold</b>		1,28,000	
<b>Import Duty</b>		10,000	
<b>Freight Charge</b>		2,000	
		1,40,000	
(-) Closing stock		(50,000)	(50,000)
<b>Gross profit</b>			40,000
<b>Less: Operating Cost</b>			
Insurance		5,000	
Salaries	24,000		
(-) Prepaid Salaries	(4,000)	20,000	
Advertisement		10,000	
Stationery	2,000		
(-) Unpaid Stationery	(2,000)	2,000	
Office expenses	6,000		
(-) Pay	(1,000)	7,000	
Electricity expense		5,000	
Rent commission		6,000	
Insurance allowed		1,000	
			(31,000)
<b>Operating profit</b>			9,000
<b>Less: Other Income</b>			
Interest on investment	100		
(-) Pay	(1,200)	1,100	
Dividend received		50	
Commission received		50	
			2,000
<b>Less: Other expenses</b>			7,000
<b>Interest on bank overdraft</b>			(2,000)
<b>Net profit</b>			1,000

**Apex Traders**  
**Statement of Changes in equity**  
**for the year ended 31 December 2017**

	2017	2016
Capital (31/12/17)	1,70,000	
(+) Profit	5,000	
		1,75,000
(-) Drawings		(25,000)
<b>Equity (31/12/17)</b>		<b>1,50,000</b>

**Apex Traders**  
**Statement of Financial position**  
**as on 31 December 2017**

Asset	2017	2016
Fixed Assets		
Furniture	25,000	
Machinery	25,000	
<b>Fixed Asset</b>		<b>50,000</b>
Investment : 10% Investment		20,000
<b>Current Asset :</b>		
Cash at hand	5,000	
Debtors	30,000	
Current stockwork	100	
Prepaid Salary	4,000	
Accrued interest on Investment	1,000	
Closing Stock	50,000	
<b>Total Current Asset</b>		<b>71,000</b>
<b>Total Assets</b>		<b>1,21,000</b>
<b>Owner's Equity &amp; Liabilities</b>		
<b>Equity (31/12/17)</b>		<b>1,50,000</b>
<b>Current Liabilities</b>		
Creditors	10,000	
Bank overdraft	20,000	
Office-expend not due	1,000	
<b>Total Current Liabilities</b>		<b>31,000</b>
<b>Owner's Equity &amp; Total Liabilities</b>		<b>1,21,000</b>

**Illustration 4**

Place the following information you are required to prepare Comparative Income Statement & Statement of Changes in Equity for the year ended 31 December 2017 and Statement of Financial Position for the date of Closing/Trade

**Total Balance**  
**31 March 2017**

Account Name	Debit Total	Credit Total
Cash in hand	8,200	
Cash at Bank	11,800	
Trade receivables and debts payable	2,200	2,000
Capital		1,20,000
Opening stock	11,800	
Purchases and Sales	25,800	50,000
Sales returned and purchase returns	2,800	2,000
Expenses	12,800	
Creditors		20,000
Profit on sale of furniture		1,000
Advertisements	2,800	
Salaries	10,800	
Clerksage	1,800	
Entertainment expenses	2,800	
Provision for bad debts & provision for doubtful debts		1,500
Commission paid and commission received	200	300
Lower (expense) (2) profit	10,800	
Furniture	4,800	
Office equipment	4,800	
Ending	12,800	
	1,25,800	1,25,800

**Adjustment:**

- Closing stock @ 10,800.
- Salary of two months are due.
- Tk. 1,000 not determined as commission.
- 10% of advertisement is to be deferred.
- Depreciate on Furniture and Office equipment @ 10%.

# **Statement**

## **Income Statement** **Comprehensive Income Statement** **for the year ended 31 December 2017**

	2016	2015	2014
<b>Sales</b>		21,000	
(+) Sales returns		(2,000)	
			19,000
<b>Less: Cost of goods sold</b>			
Opening stock		11,000	
Purchases	14,000		
(-) Purchase returns	(2,000)	10,000	
(+/-) Freight		1,000	
		40,000	
(-) Closing stock		(20,000)	
			20,000
<b>Gross profit</b>			20,000
<b>Less: Operating expenses</b>			
Advertisement	7,000		
(-) Depreciation (1/2)	(5,000)	1,000	
Salary	10,000		
(+/-) Misc.	1,000		
		11,000	
<b>Extraordinary expenses</b>			
(Discontinued last year)	4,000	1,000	
(Less: Special dividend received for last year)	(1,000)		
		3,000	
<b>Contribution sold</b>			100
Waste off Lease property (1/2)		4,000	
Depreciation: Furniture	100		
Depreciation: Office equipment	200		
		500	
<b>Operating profit</b>			20,500
<b>Other Income</b>			
Profit on sale of land		1,000	
Commission received		100	
			1,100
<b>Net profit</b>			21,600

**Shredded Stationery**  
**Statement of Changes in Equity**  
**For the year ended 31 March 2027**

	Particulars	Total
Capital (31/03/2026)	1,00,000	
(+) Profit	1,000	
(-) Drawings		(1,000)
	<b>Capital (31/03/2027)</b>	<b>1,00,000</b>

**Shredded Stationery**  
**Statement of Financial Position**  
**As at 31 December 2027**

Assets	Total	Total	Total
<b>Fixed Asset :</b>			
Land	10,000		
(-) Worn off	(2,000)	(2,000)	
Furniture	4,000		
(-) Accumulated Depreciation	(200)	(200)	
Office equipment	1,000		
(-) Accumulated Depreciation	(200)	(200)	
<b>Total Fixed Asset</b>		6,600	10,600
<b>Current Asset :</b>			
Cash in hand		1,200	
Cash at Bank		11,800	
Accounts receivable		3,000	
Debtors	10,000		
(-) Unrecorded Bad debts	(2,000)	(2,000)	
Closing stock		10,800	
<b>Total Current Asset</b>		23,800	23,800
<b>Fixed Asset</b>			10,600
<b>Current Asset</b>			13,200
<b>Total Asset</b>			<b>23,800</b>
<b>Owner's Equity &amp; Liabilities</b>			
<b>Equity (31/03/2027)</b>			10,000
<b>Current Liabilities</b>			
Accounts payable		1,000	
Creditors		10,000	
Amount in loan		2,000	
<b>Total Current Liabilities</b>		13,000	13,000
<b>Owner's Equity &amp; Total Liabilities</b>			<b>23,800</b>

**Exercise 8**

From the following information you are required to prepare Comparative Income Statement, Statement of Changes in Equity for the year ended 31 December and Statement of Financial Position as on 31 December 2017 of Pashan Enterprise.

**Total Returns**  
31 June 2017

Title	Debit Total	Credit Total
Salaries and Wages	10,000	27,000
Building	70,000	
General reserve		10,000
Capital fund	10,000	
Capital		1,00,000
Drawings	10,000	
Opening Stock	50,000	
Purchase of Sales	57,000	1,50,000
Export to Building	2,000	
Freight	5,000	
Import Duty	1,000	
Bank charge	1,500	
Salary advance	10,000	
General expenses	5,000	
Bank overdraft		2,000
Insurance premium	1,500	
Legal charge & Provision for doubtful debts	5,000	2,500
Advertisement	2,000	
Salary Tax	5,000	
Interest on Bank C/D	10,000	
Dividend received		4,000
Traveling expenses	7,000	
House rent received		10,000
Income Tax	5,000	
	<b>2,22,000</b>	<b>2,20,000</b>

**Additional info**

- Bank charges for general use: 1,500/Taka were not included.
- Unrecorded Sales received and Income received 4,000 and 5,000/Taka respectively.
- Insurance premium have paid up to 30 September 2017 (for one year).
- Unpaid salary: 1,000/Taka and salary for one month is due.
- Write off 2,000/Taka as bad debt and charge 50% provision for bad debt to doubtful debts on remaining debtors.
- Closing stock: 50,000/Taka.

Given By: Accounting/Topic 12

**Solution:**

**Proforma Statement  
of Comprehensive Income Statement  
for the year ended 31 March 2011**

	<b>Total</b>	<b>Total</b>	<b>Total</b>
Sales		1,24,000	
(-) Returns inward		(1,000)	
Net Sales (gross)			1,24,000
Opening Stock		10,000	
Purchases	14,000		
(-) Goods Damaged	(1,000)		
	13,000		
(-) Returns outward	(1,000)		
		11,000	
Freight		4,000	
Import duty		1,000	
Over charges		1,000	
		1,17,000	
(-) Closing stock		(10,000)	
			1,07,000
			(1,000)
Net Operating Cost			
Expenses to Building		1,000	
Salaries and Wages		11,000	
General expenses	5,000		
(-) interest on inventory	(1,000)		
		4,000	
Insurance premium	1,000		
(-) Freight	(1,000)		
		1,100	
Legal charges		4,000	
Change for loss & expense for doubtful debts	1,000		
Loss (expense) for loss & expense for doubtful debts	(500)		
(On balance) (2,000) (debit) (credit) (off)		800	
Adjusted amount		1,000	
Interest on expenses		1,000	
			1,00,000
			14,000

Other Expenses:			
Depreciation		4,000	
Interest (accrued)	11,000		
(+) Balance	1,000	1,000	
			14,000
Other Expenses:			
Badly Loss		1,000	
Interest Paid (Quarter)		30,000	
			(31,000)
<b>Net profit</b>			<b>14,000</b>

**Parsons Enterprise**  
**Statement of Changes in Equity**  
 for the year ended March 2017

	Total	Total
Opening Capital	1,00,000	
(+) Net profit	28,000	1,28,000
(-) Drawings:		
Cash	25,000	
Goods	5,000	(24,000)
(-) Income tax		(1,000)
		(26,000)
(+) Dividend received		10,000
<b>Owner's equity (31/03/2017)</b>		<b>1,37,000</b>

**Parsons Enterprise**  
**Statement of Financial Position**  
 as on 31 March 2017

Assets	Total	Total	Total
<b>Fixed Assets:</b>			
Plant		25,000	
<b>Fixed Asset</b>			<b>25,000</b>
<b>Current Assets:</b>			
Cash in hand		14,000	
Debtors	30,000		
(-) Current liabilities received	(1,000)		
	29,000		



(1) Dividend paid	(1,000)		
(2) Dividend not provided for liability	(1,400)		
		1,000	
Share issue proceeds		1,000	
Fixed interest provision		275	
Interest reserve		1,000	
Change stock		80,000	
			75,275
<b>Total Capital Assets</b>			<b>1,41,275</b>
<b>Total Assets</b>			<b>1,41,275</b>
<b>Equity and Liabilities</b>			
Capital (1,41,275) (1)			80,575
<b>Current Liabilities</b>			
Payables	55,000		
Payables interest	(2,000)		
		53,000	
Bank overdraft		7,000	
			21,000
<b>Total Current Liabilities</b>			<b>21,000</b>
<b>Equity and Total Liabilities</b>			<b>1,41,275</b>

### Evaluation of financial condition of business

From comparative Income statement and statement of Financial position, we can know overall condition of business such as profit, loss, fixed assets, current assets, current liabilities, long term loan, capital etc. But this information is not sufficient. Because the most important item is not only to know profit or loss of a business but also to know how much profit has been earned against how much capital invested. Besides that, we have to know not only the amount of current assets and current liabilities but also to know how much current assets to current liabilities, which reflects the long term capacity of a business through current assets. So, to know the financial condition of a business properly we have to compare each item of comparative Income statement and Financial statement to another item, we have to calculate percentages of each account to another account or ratio of each account to another account. From these percentages and ratio comparative evaluation of more than one part of a business is possible. Not only this, under these ratio it is possible to compare one business to another business. Some ratio analysis is given below.

### Profit ratio:

We can compare profits to sales and capital employed. Then i.e., we can relate the percentage of net profit to sales and net income to capital employed. Because of these ratios indicate good capacity of earning profit. Hence, the profit ratio of business is higher than another business indicates better capacity of earning profit.

$$1. \text{ Net profit ratio} = \frac{\text{Net profit}}{\text{Net sales}} \times 100$$

$$2. \text{ Net profit to capital employment} = \frac{\text{Net profit}}{\text{Capital employed}} \times 100$$

$$\text{Capital employed} = \text{Total assets} - \text{Current Liabilities}$$

### Capacity of loan repayment:

We can know the loan repayment capacity of business from comparisons of current assets and current liabilities. As a indication of current assets and current liability has ratio. For this reason writers to calculate following two ratios:

$$1. \text{ Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$2. \text{ Liquid ratio} = \frac{\text{Current Assets} - (\text{Stock of Goods} + \text{Prepaid expenses})}{\text{Current Liabilities}}$$

As prepaid expense & stock of goods are not possible to convert into cash quickly. These type of items are deducted from current assets when we are calculating liquid ratio. Ideal ratio of current ratio is 2:1 that means every 1 take current liability business should keep 2 take current assets, alternatively for liquid ratio business should keep 1 take liquid asset against every 1 take liquid liability. That's why ideal ratio of liquid ratio is 1:1.

### Illustration

Following information's are collected from the books of Ravi Enterprises and friends. Compute of 2017

	Ram Enterprise (Tk.)	Sensiblen Enterprise (Tk.)
Gross profit	10,000	12,000
Net profit	8,000	8,000
Notes	1,00,000	1,20,000
Capital	50,000	50,000
Current Asset	10,000	10,000
Current liabilities	5,000	6,000
Stock	1,000	1,200

**Requirement:**

- Calculate net profit ratio and net profit is equal employed ratio.
- Current ratio and liquid ratio of both businesses.
- Which is better business?

**Solution:** (i)

Profit ratio	Ram Enterprise	Sensiblen Enterprise
1. Net profit ratio = $\frac{\text{Net profit}}{\text{Net sales}} \times 100$	$\frac{8,000}{1,00,000} \times 100 = 8\%$	$\frac{8,000}{1,20,000} \times 100 = 6\%$
2. Net profit to Capital employed ratio = $\frac{\text{Net profit}}{\text{Capital employed}} \times 100$	$\frac{8,000}{50,000} \times 100 = 16\%$	$\frac{8,000}{50,000} \times 100 = 16\%$

**(ii)**

Current liabilities to current ratio	Ram Enterprise	Sensiblen Enterprise
1. Current ratio = $\frac{\text{Current Asset}}{\text{Current Liabilities}}$	$\frac{10,000}{1,000} = 10:1$	$\frac{10,000}{2,000} = 5:1$
2. Liquid ratio = $\frac{\text{Current Assets (Stock + Cash + Debt Investment)}}{\text{Current Liabilities}}$	$\frac{10,000 - 1,000}{1,000} = 9:1$	$\frac{10,000 - 1,200}{2,000} = 4.4:1$

- (i) Financial condition of Ram Enterprise is better than Sensiblen Enterprise. Profit of Ram is 8% and 16% and Sensiblen is 6% and 16%. Liquid or loan repayment capacity of Ram Enterprise is better than Sensiblen Enterprise. Short-term solvent ratio is 2:1 and indicates sufficient cash and debt return after loan repayment.

**Activity:** From the following information you are requested to calculate net profit ratio, return on capital employed ratio, current ratio and liquid ratio

Cost of goods	40,000	Capital employed	1,00,000
Net profit	10,000	Current Asset	25,000
Sales	1,20,000	Current liabilities	20,000
		Closing stock	5,000

## Exercise

### Multiple choice questions

1. What is the ratio of 'Inventory of unperformed services' to sales?

- a) Net Sales
- b) Net Purchase
- c) Gross Profit
- d) Cost of Goods Sold

2. What are subtracted for calculating cost of goods sold?

- a) Opening Stock of Goods
- b) Closing Stock of Goods
- c) Net Purchase
- d) Net Sales

3. Opening account

- i) Sales of Furniture
- ii) Cost Sold
- iii) Service Revenue

Which one is correct?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

4. Which one is correct?

- a) Profit changes capital
- b) Profit decreases capital
- c) Capital never help from profit
- d) Profit increases capital

5. Gross profit

- a) Cost of Goods Sold - Closing Stock
- b) Net Sales - Cost of Goods Sold
- c) Cost of Goods Sold + Opening Stock
- d) Net profit - operating expenses

6. Included in Other Income -

i. Interest on investment

ii. Sales

iii. Dividend received

Which one is correct?

a) i & ii

b) i & iii

c) ii & iii

d) i & ii & iii

7. If Sales 15,000 Taka, Freight 1,000 Taka, Purchase 1,700 Taka, Purchase 10,000 Taka. Carriage inward 100 Taka then what will be cost of goods sold?

a) 10,000 Taka

b) 14,000 Taka

c) 15,000 Taka

d) 16,700 Taka

8. Depreciation means-

a) Purchase price of fixed assets

b) Sales price of a fixed asset

c) Writing down value of fixed asset

d) Replacement value of fixed asset

9. Provision for doubtful debt is kept, when-

a) Debtor is insolvent

b) Debtor can not pay

c) Company that money will not collect from debtor.

d) Possibility of non-collection of amount due to debtor

10. If gross profit is 15,000, operating expenses is 45,000, other income

is 10,000 then net profit will be-

a) 20,000 Taka

b) 25,000 Taka

c) 30,000 Taka

d) 35,000 Taka

11. Suppose if gross profit is small, what is the reason for that?

a) Cost of goods sold increases

b) Stock of goods increases

c) Operating expenses increases

d) Other income increases

12. Which one is operating expense?

a) Office expense

b) Drawings

c) Bad debt loss

d) Interest on loan

13. Cashflow shows in which part of financial statement?

a) Current Asset

b) Current Liability

c) Fixed assets

d) Long term loan

- 14 Underbook off. Leave Tenders. G-1000 Duff tender under Motor & Boat  
What does it mean the Leave Tenders?
- a) Expense                      b) Income  
c) Asset                        d) Liability

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- $\frac{\text{Current Liabilities} - (\text{Stocks} + \text{Prepaid expenses})}{\text{Current Assets}}$
- $\frac{\text{Current Assets} - (\text{Stocks} + \text{Prepaid expenses})}{\text{Current Liabilities}}$
- $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
- $\frac{\text{Current Assets} - (\text{Stocks} + \text{Prepaid expenses})}{\text{Current Liabilities}}$

**Abstract**

- † Total balance is after necessary adjustments of Bishop's Last Chapter (Bible vs. 11 December 2007 meeting) below.

Students Love (Cheer)  
 First Edition  
 Fall Semester 2017

10	Salary & Allowance		1,10,000	
11	Electric & Telephone Bill		20,000	
12	Customer expenses		7,000	
	<b>Total</b>		<b>1,37,000</b>	<b>1,37,000</b>

**Adjustments**

- 1) Charge Rs. 40,000 towards the salaries for providing legal services than a Company, which is included in Service Revenue
  - 2) Salary & Allowance is due for 6 months
  - 3) Half of prepaid insurance cost expired
  - 4) Charge depreciation on fixtures & equipment 10%.
  - a) Calculate current liabilities from above information.
  - b) Prepare comprehensive Income statement of Thomas Law Chariter.
  - c) Calculate Total amount of classified Assets as statement of financial position.
2. A few ledger balances and necessary adjustments of Ramkrishn Enterprise as at 31 December 2017 are as follows:

Name of accounts	L.F	Debit Side	Credit Side
Opening stock of goods		30,000	
Furniture sold sales		4,00,000	4,00,000
Carriage Inward		5,000	
Salaries		12,000	3,000
Insurance		7,000	10,000
Interest (3 months)		14,000	
Import duty		3,000	
Stationery		4,000	
Advertisement		11,000	
Bank overdrafts		11,000	
<b>Total</b>		<b>4,38,000</b>	<b>4,38,000</b>

**Adjustments**

- 1) Purchase price of closing stock of goods is Rs. 40,000 if actually market price is Rs. 3,000 more.
- 2) Opening stock of goods includes stationary worth Rs. 100

- 3) Goods distributed to their friend among the prospective buyers worth of Rs.2000 were not recorded.
- 4) Freight expenses to date of Rs.2,000, on the other hand, it is still has been paid advance for duty.
- Calculate the correct effect sales from the above information.
  - Determine the cost of goods sold of Jam/hum (Company)
  - Considering gross profit of Rs. 1,20,000 prepare the statement of comprehensive income.
3. The trial balance and other information of Jeeba and Sons as at 30 June 2017 are as follows.

**Jeeba and Sons**  
**Trial Balance**  
**30 June 2017**

Name of accounts	L.F.	Debit Side	Credit Side
Purchase and Costomers		1,20,000	50,000
Debtors and Sales		15,000	1,25,000
Carriage outward and return inward		11,500	4,500
10% Bank overdraft (1-1-2017)			40,000
Capital			1,80,000
Prepaid rent		30,000	
Bank charge and Post office money		2,000	4,000
Creditors and		7,000	21,000
Loan liability (20 years)		1,20,000	
<b>Total</b>		<b>2,75,000</b>	<b>2,75,000</b>

Other Information:

- Value of unsold goods is of Rs. 61,000
- Prepaid rent worth of Rs.4,000 is expired
- Amount of bill debt for the year is of Rs. 3,000 and provision for bill debt is to be kept @10%
- Calculate the cost of goods sold from the above information.
- Prepare the statement of comprehensive income of Jeeba and Sons considering Gross profit of Rs. 40,000
- Prepare the statement of financial position considering the closing balance of reserve equity of Rs. 1,80,000.



4. Trial balance and other information of Priety Enterprise as at 31 December 2017 are as follows:

Name of accounts	L.F.	Debit Total	Credit Total
Capital			1,50,000
Cost of goods sold		1,25,000	
Closing stock of goods		31,000	
Sale			2,20,000
10% Investment		1,20,000	
Salaries and Wages		11,000	
Travelling expenses		18,000	
Commission		7,000	4,000
Dividend received			11,000
Banky credit			40,000
Total		1,75,000	1,75,000

(Other information)

1) Salaries and Wages payable for 4 months

2) Change 10% depreciation on firm net

3) Commission receivable Rs. 4,000 not yet recorded

a) Calculate gross profit or loss from the above information.

b) Prepare the statement of comprehensive income considering the gross profit Rs. 1,75,000

c) Prepare the statement of financial position considering the net profit after all Rs. 40,000

5. Trial balance and adjustment of Choudhary Enterprise as at 31 December 2017 are as follows:

Serial No.	Name of accounts	L.F.	Debit Total	Credit Total
1	Stock of goods (31.1.2017)		40,000	
2	Purchase and Sales		1,50,000	1,50,000
3	Office expenses		40,000	
4	Carriage expenses		1,000	
5	Cash in hand		15,000	

1	Accounts Receivable and Accounts Payable	60,000	15,000
2	Prepayment for bad & doubtful debts		6,000
3	Current assets		700
4	Salary lost	1,000	
10	Profit on sale of equipment		1,000
11	Bank charge	1,000	
12	Bank charge	1,000	
13	Storage and telephone expenses	1,000	
	<b>Total</b>	<b>1,100,000</b>	<b>1,100,000</b>

**Adjustment**

- Goods sold by cash & 10,000 was not recorded.
- Write off 2,500 as bad debt and 5% provision for doubtful debts is to be changed.
- To 4,000 was paid for legal expenses of the business, not yet recorded in the books.
- Unrecorded interest earned is 1,000 and interest received is 1,000.
  - Determine the amount of closing bank from the above information.
  - Determine the Gross profit or loss by preparing comprehensive Income Statement.
  - Calculate Net profit or loss considering Gross profit & 1,00,000.
- Elabedell Enterprise's current Gross profit is 1,20,000 for the year ended 30 June 2017. Part of Trial balance & necessary adjustments on that date of business are as follows:

Serial No.	Accounting Title	L.F.	Debit Total	Credit Total
1	Drawings & Capital		10,000	1,00,000
2	Office Equipment		1,00,000	
3	Salary (6 months)		12,000	
4	House Receivable & House Payable		25,000	25,000
5	House Rent Income			4,000
6	Accumulated Dep. (Office equipment)			15,000
7	5% Investment (1/1/16)		1,00,000	
8	Commission		1,000	1,000

P 80	Interest on Investment 18% Mortgage Loan (30/11)			4,000 1,20,000
	Total		1,24,000	1,24,000

**Adjustments:**

- Cost price at closing stock of goods is 1,20,000 but market price is 20,000 higher.
- Dividend was received for 3 years.
- Charge depreciation 7.5% on office equipment.
- Commission receivable is 1,000.

a) Calculate cost of goods sold considering the value is 1,24,000.

b) Prepare comparative balance sheet statement for the year ended 31 June 2017 of Shreehari Enterprise.

c) Determine financial position at the closing date of accounting period considering the loan is 17,000.

- Draw Income & other information on 31 December 2017 of Shreehari Enterprise are as follows:

**Trail Balance**  
**31 December 2017**

Serial No.	Accounting Title	L.F.	Debit Total	Credit Total
1	Purchase & Sales		1,20,000	3,12,500
2	Change		15,000	
3	Salary & Allowance		20,000	
4	Rates & Taxes		14,000	
5	Commission		7,500	15,000
6	Stationary		4,000	
7	Post charge		12,000	
8	Loan used & Dividend received		6,500	20,000
9	Share bought & Dividend received		7,000	12,000
10	Stock of goods (30/11/2017)		20,000	
	Total		1,76,000	1,76,000

**Other Information:**

- Should goods valued is 1,20,000 is, in this amount, stock of stationary is 1,000 included.

2. Sales of 10,000 & purchase of 5,000 on credit get to record.  
 3. Tax due of 1,000 on the company's interest of 20,000 in advance.  
 a) Calculate Net current assets from above information.  
 b) Calculate Gross profit or loss preparing comprehensive income statement.  
 c) Calculate Net profit excluding Gross profit of 1,75,000.
1. Trial balance is after information on 30 June 2017 of Bhandal's Firm are as follows:

Trial balance

30 June 2017

Serial No.	Accounting Title	L.F.	Debit Total	Credit Total
1	Drawings & Capital		1,000	1,30,000
2	Cash in hand		10,000	
3	Furniture		10,000	
4	Accounts Receivable		10,000	
5	Prepaid Insurance Premium		500	
6	11% mortgage to Bank (31-01-2017)		1,00,000	
7	Bank overdraft			1,000
8	Additional Capital (31-06-2017)			20,000
9	Deferred advertisement		4,000	
10	Insurance		8,000	
11	Salary due			1,000
12	General Reserve			21,000
13	Machine		20,000	
	<b>Total</b>		<b>1,75,000</b>	<b>1,75,000</b>

Other information:

1. Closing stock of goods valued at 20,000.  
 2. Owner's life insurance premium of 1,000 paid from business, which is not record.  
 3. 1 ton of 10,000 were completely destroyed, which need to be recorded.  
 4. Interest earned on investment.  
 a) Calculate current liabilities from above information.  
 b) Prepare statement of changes in equity considering net profit of 40,000.  
 c) Determine total assets in the last day of accounting period in statement of financial position.

7. Following is the information of Bharat and Basanti for the year 2016 & 2017:

	2016	2017		2016	2017
Gross profit	14,000	12,000	Current Asset	8,000	11,000
Net profit	4,000	5,000	Current Liabilities	6,000	7,000
Salaries	10,000	12,000	Stocks	1,000	900
Invested Capital	50,000	70,000			

- What will be the opening cost of 2016 & 2017?
- Calculate the net profit ratio and Capital-employed ratio of 2016.
- Express short term loan requirement explicitly for the year 2017.

18. Radha-Enterprise earned gross profit ₹ 15,000 in the year of 2017 through selling rate increase. The Trial Balance and other information's are as follows:

Sr. No.	Account name	L. B.	Debit Value	Credit Value
1	Bank (opening)			25,000
2	Purchase and Sales		10,000	40,000
3	Salaries given & Purchase return		5,000	1,000
4	Expenses and Credits		15,000	8,000
5	10% Investment (-3-12)		20,000	
6	Bank Interest		10,000	
7	Profit/Loss account		5,000	
8	Provision to be made & debit/credit			6,000
9	Capital			1,00,000
10	Interest on Bank overdraft		5,000	
11	Opening Stock		10,000	
12	Costs/loss		5,000	
			1,50,000	1,50,000

Other Information:

- Closing stock cost is ₹ 6,000 and market value is ₹ 8,000.
- There is 5% sales tax on sales from cash sale.
- Goods Purchase on credit of ₹ 2,000 was not recorded in the books.
  - From the above information calculate Capital ratio of Radha Enterprise.
  - Prepare comparative income statement of Radha Enterprise.
  - Prepare statement of financial position considering net profit is ₹ 10,000.

19. Following is the Trial Balance of Surya, Traders as on 31 December 2017:

Sr. No.	Title	L. B.	Debit Value	Credit Value
1	Opening stock		20,000	
2	Purchase & Sales		80,000	1,20,000
3	Salaries received		1,000	
4	Return inward			6,000
5	Purchase		24,000	

6	Carriage inward		4,000	
7	Salaries		12,000	
8	Rent		5,000	
9	Reserve Fund			30,000
10	Profit and Loss		4,000	
11	Drawings & Capital		10,000	10,000
12	Additional capital (10% P)			20,000
13	Inventory		10,000	
	<b>Total</b>		<b>50,000</b>	<b>50,000</b>

**Other Information:**

1. Closing stock @ 100.
2. Dividend previously paid Rs. 12,000 to employees of Business, not yet recorded.
3. Depreciate 10% on Fixed assets
  - a) Calculate net value of fixed assets at the end of the year of Success Traders
  - b) Depreciate net profit of Success Traders.
  - c) Prepare comprehensive statement of Success Traders (Considering Net Profit Rs.12,000)
12. Following is the Trial Balance of Khushi & Co. as on 31 December 2017

Serial	Account name	L.F.	Debit Total	Credit Total
1	Opening Stock		15,000	
2	Purchase & sales		40,000	1,00,000
3	Salary		5,000	
4	Interest		1,000	2,750
5	Insurance premium		750	
6	Postage & Telegram		1,000	
7	Carriage		2,500	
8	Advertisement		1,750	
9	Dividend received			1,000
10	Previous period sales & dividend sales			2,000
11	Banky interest		40,000	
	<b>Total</b>		<b>1,11,000</b>	<b>1,06,000</b>

**Adjustments:**

1. Closing Stock 15,000 sales
2. Goods Purchase 2,000 value not recorded
3. Goods withdrawn by the owner 1,000 value not recorded in the books
4. Change 7% provision for doubtful debt and 2% provision for discount on sales.
5. Advertisement was paid for 1 year
  - a) How much amount of not paid?
  - b) Calculate Gross profit on the basis of above information of Khushi and Co
  - c) Prepare Comprehensive Income statement considering gross profit Rs 17,000

## Eleventh Chapter

### Cost Price, Cost of Production and Selling Price

Determination of production cost and selling price is most important for the goods and commodities which are produced, purchased and sold for business purpose. If price is not properly determined, business will suffer loss and create other hazards. To survive in current competitive market situation, determining cost price at the time of production or purchase, also to determine selling price at the time of sale and overall, price is vital for maintaining interest of both producer and sellers.



Interior view of manufacturing plant

At the end of this chapter we will be able to –

- Determine cost and selling price of a trading concern.
- Classify statement of cost of production.
- Prepare cost sheet and determine cost cost price and cost sales price.

### Determination of Cost Price & Selling Price

The prime objective of a business concern is to maximize its total profit and loss. Determination of actual profit or loss will not be possible if the price of the goods purchased and their selling price cannot properly be determined. Cost price is ascertained by adding direct expenses incurred to the value of goods produced or purchased. Indirect expenses are added to these to make up total cost of the goods purchased and a certain percentage of profit is added to this total cost for determining selling price.

#### Determination of Cost Prices

In ordinary sense, cost price is that price which a party at the time of purchasing goods or commodities. But in the real sense, cost price includes all the cost of carrying goods or commodities to the place where they are stored. Such carrying costs are known as direct expenses. For example, carriage inward, import duties, dock charges, payment to porters etc. Illustration can mean for example:

Sumit & Sons of Gujrat purchased 5,000 litres of Gerdia oil from Changanag at Tk. 120 per litre. The paid truck fare of Tk. 15,000, labour charges of Tk. 1,200, toll charges of Tk. 1,000 Tk. 1,000 per litre for offloading expenses in warehouse. In this case, the price of per litre oil will be-

Particulars	Total	Total
Purchase of Gerdia oil (5000 litres x Tk. 120)		6,00,000
1-1/2 Direct Expenses		
Truck fare	15,000	
Labour charge	1,200	
Toll charge	1,000	
Offloading expense	1,500	
		18,700
<b>Total Cost price</b>		<b>6,18,700</b>



Table of Purchase cost, cost of goods purchased and selling price are shown as below:-

Sum of the first

For the year ended on ..... Total .....

Particulars	Total	Total
Amount paid for the purchase of goods purchased		10000
Add: Various expenses		
• Cartage	500	
• Break charges	500	
• Duty	500	
		<u>1500</u>
<b>Cost price</b>		<b>11500</b>
Add: Selling expenses		
• Depo	500	
• Salary	500	
• Advertisement	500	
		<u>1500</u>
<b>Sum of cost goods purchased and selling price</b>		<b>13000</b>
<b>Selling price</b>		<b>13000</b>

#### Determination of Selling Price:-

Selling price is that price which is determined by adding profit to the total cost of goods purchased or manufactured. For example, shop rent, staff salary, electricity, advertisement expense etc. are added to the cost of goods purchased to find out the total cost. Then selling price is determined by adding desired profit to the total cost. For example, total cost price of soap bar cost was of Rs. 18,10,000. To sell this oil they also paid an indirect expense of Rs. 18,000 staff salary Rs.2,000, electricity bill Rs.1,500, advertisement Rs.2,000 and travelling expense Rs.1,000. If bar oil is sold at a profit of 10% on the total cost, then the selling price will be-

Particulars	Total	Total
<b>Total Cost price</b>		<b>18,10,000</b>
(+) Indirect Expenses		
Staff salary	2,000	
Electricity bill	1,500	
Advertisement	2,000	
Travelling expense	1,000	<u>6,500</u>
<b>Total Cost</b>		<b>18,16,500</b>
(+) Desired Profit (18,16,500 × 10%)		<u>1,81,650</u>
<b>Selling Price</b>		<b>19,98,150</b>
<b>Selling price per bar oil (19,98,150 ÷ 100) = Rs. 199.815</b>		

Purchase cost, cost of goods purchased and selling price are shown below by an example:

### Example:

Mass Intergroup of Osaka reported 1,000 bundles of Corrugated Iron Sheets from Vietnam at B. 4 000 per bundle. Following expenses were paid to report 1,000 bundles of Corrugated Iron Sheets:

Import duty B. 15,000, freight B. 75,000 (Shipping insurance B. 4,000), clearing charge B. 7,000, porter expenses B. 2 000, truck and B. 24,000. Besides, paid B. 15,000 as clearance and shipment and B. 7,000 as employees' salary. He also paid B. 10 as commission for the sale of each bundle corresponding. The said businessman makes 10% of profit on total cost by selling the corrugated sheets.

### Solution:

**Cost Statement**  
**(Statement of cost price and selling price)**

Purchases	Total	Total
Purchase of Corrugated Sheets (1,000 bundles at B. 4 000)		4,000,000
(+) Direct Expenses		
Import duty	15,000	
Freight	75,000	
Shipping insurance	4,000	
Clearing charge	7,000	
Porter expenses	2,000	
Transportation	24,000	
		1,27,000
<b>Total cost price</b>		<b>4,127,000</b>
(+) Indirect Expenses:		
Clearance and ship cost (staff salary)	15,000	
Employees' salary	7,000	
Commission (To 1,000 B.)	10,000	29,000
<b>Total Cost</b>		<b>4,166,000</b>
(-) Desired Profit (at 10,000 B. 10%)		<b>416,600</b>
<b>Selling Price</b>		<b>4,582,600</b>

Cost per bundle of corrugated sheet = (To. 4,166,000 - 1000) = To. 4,165.

Per bundle selling price of corrugated sheet = (To. 4,582,600 - 1000) = To. 4,581.60

**Activity:** Tansen & Sons, of Delhi produced 100 pieces of Sheep Machine Iron Clothing at Rs. 5,000 each. Total Rs. 50 lakhs savings Rs. 2,000 on transportation from Rawalpindi, Rs. 1,000 on duty and Rs. 1,200 on other charges. Besides, paid Rs. 4,000 to manufacturer, Rs. 5,000 to shop rent, Rs. 2,500 as staff salary and Rs. 1,000 as electricity charge. Profit 20% on cost cost.

Find out production cost, total cost and selling price.

## Cost and Elements of Cost



Picture: A sugar mill industry

### Meaning and significance of cost

Generally, paying the expenses of all kinds for producing or purchasing of any product is called cost of production. The amounts which is paid for acquiring any economic result is called cost. In short, the cost of any product is the sum total of all expenses incurred in producing or manufacturing it. as we can say that, the cost of any product is the sum of total expenses incurred at different levels of production in a factory right from the use of raw material up to finished product. For example, the sum total of expenses incurred for timber used in the production of furniture, coloring, furnishing, wages paid for labour, cost of using machinery and other expenses can be called cost of human production. In the same way, the cost of sand, earth and clay, wages and the expenses for bricks baking, in total can be considered as production cost of brick manufacturing.

Adjusting expected profit through controlling of cost is one of the basic objectives of Cost Accounting. Cost of production plays a vital role in case of determination and control of cost, fixation of selling price, administrative control and managerial policy making of an industry. Determination of total cost

cost and per unit cost of goods produced (discussing all types of expenses). If we fail to determine the total cost and per unit cost of any goods and services, we can't determine their selling price. Selling price of any product is fixed only after carefully determining its cost of production.

The elements which are involved in determining total production cost, mean all types of direct and indirect expenses on logs and scattered property. As a result, while we can keep track of the cost incurred with regard to different elements of cost, we can also know the various elements of expenditure, or the other hand, keep track of losses with regard to theft, wastage, losses and others. Thus it helps us to control and reduce total production cost.

**Activity:** What information is cost of production is important?

### Objectives of determining cost of production

Determination of cost of production is the basic objective of cost accounting. Efficiency effectiveness of a firm largely depends on the determination of cost. Some vital objectives of having an account are given below:

1. **Ascertainment profit or loss:** The prime objective of business is to get true financial picture through ascertaining correct profit or loss. Profit and loss ascertainment can easily be done through determination of cost.
2. **Valuation of stock:** Determination of cost is important to determine the actual value of stocks after an accounting period.
3. **Fixation of responsibility:** Comparison between predetermined and actual cost can not only find the discrepancy but also find out the causes behind such gap. By doing so, it can easily pinpoint the person who is responsible for the loss.
4. **Determination of selling price:** cost is necessary to determine the profitable selling price in a competitive market. Using cost as a strategy, finally, per unit cost is determined. After that considering the demand for goods or services, strength of competitors, government policy and profit policy the desired percentage of profit is added with cost of production.
5. **Budget preparation:** Budget is consideration for prediction of future action plan/budget. A proposed for every single unit of expenses of a firm. There per unit cost is determined so total cost budget can easily be prepared.
6. **Project appraisal:** Economic feasibility of a project is evaluated before the project is in actual operation. In determination of cost plays an important role in cost of feasibility study.

**Workings:** Which are the other objectives and cost of production?

### Elements of cost

Determination of total cost is not sufficient in case of producing goods or services. For the purpose of appropriate control and decision making, classification and analysis of elements of cost is fully needed. The various elements of cost which go to make up the total cost of any product may be divided into three main heads. Viz: (a) Raw Materials, (b) Labour and (c) Chargeable expenses.

Each of these three elements is again divided into two classes i.e. direct and indirect.



Total cost can be determined by above mentioned cost elements. This total cost can also be analysed through the table given below.





Elements of cost are discussed below:

### 1) Raw Material

**i) Direct Raw Material:** Materials which are primarily used for the production of any goods and which are considered to be inseparable parts of those goods are direct raw materials. Direct raw materials are included in cost of determining prime cost. For example, paper for making book, wood for making furniture, yarn for the manufacturing of cloth, sugar for sugar.

**ii) Indirect Raw Material:** The materials other than direct raw materials which is used for production is called indirect raw materials. That is, the materials which are not directly used for production is known as indirect raw materials. Glue and brass for making chair, Glue for making shoe, and wax, varn, and paper for making furniture are the examples of indirect raw material. Indirect raw materials are used as materials for production.

### 2) Labour/Wages

**i) Direct Labour:** The workers who are directly related with production is called direct labour. The payment made to the workers for transforming raw materials into finished product and from working process to finished product is called direct labour or wages. For example, wages paid to the machine operators in factories, worker cost for making furniture, sewing cost for making shoes.

**ii) Indirect Labour:** The workers who are not directly related to the production, but helps for production is called indirect labour. For example, helper's wages in ready made garment factories are indirect labour. These

labour help in production either direct participation of production process activity. For spending indirect labour total cost of production will not be increased.

### 3) Chargeable expenses

**i) Direct expenses:** The expenses which are incurred either for direct use materials or for direct labour but they are directly being charged to the production are called direct expenses. These expenses are also called chargeable expenses. For example:-

- Expenses of architectural draughtsman, carpenter
- Engineering drawing cost
- Special form making cost for producing dies
- Purchase of tools in case of contract job, i.e. tool cost, travelling cost for tools etc.

**ii) Indirect expenses:** The expenditures which incurred in the production process can not be identified separately as direct indirect expenses. For example power expenditure for making fixtures can not be identified separately. These expenditures treated as indirect expenditures. These expenditures incurred for overall management of the organisation and follow various regular supply regularly. Indirect expenses or Overhead can again be sub-divided into three categories.

**a) Factory Overhead:** All costs related to production other than direct materials and direct labour are called factory overhead. For example: Factory rent, Insurance, Managerial costs, Electricity and water supply etc.



**b) Administrative Overhead:** Expenses related to office and administrative matters are called administrative overhead. It refers to all indirect expenses incurred in connection with overall administration and office management. For example, salary for office staff, office rent, other office expenses i.e. postage & telegram, telephone & electricity, printing & stationery, computer expense & legal expense etc.

**c) Selling Overhead:** The associated of indirect expenses incurred for the sale of finished goods is termed as selling and distribution overhead. All expenses in connection with order or delivery of produced goods under new market

particular old market, select customers. For example, advertisement expenses, cost of showroom, carriage outward, salary & commission paid to sales manager or sales representatives, all expenses related to selling office etc. Again, all expenses related to sales sales, receiving and repaying, changing the goods are also included in selling expenses.

**Activity:** Give three examples of each of the following:  
 (a) Direct/Basic Material and (b) Direct Labour

### Cost Sheet

**Cost Sheet** is a statement where elements of cost regarding to production are systematically arranged for specific item. Usually, manufacturing organisations prepare cost sheet showing the expenses of elements of cost incurred by the process of production as part of financial statement at the end of the accounting period. Cost sheet can be prepared for monthly, quarterly, half yearly and yearly depending on the nature of job of a particular organisation. For the purpose of determining cost of production, cost of goods sold and profit, cost sheets can be prepared at these stages. A specimen form of cost sheet is given below.

Form of the Manufacturing Firm:  
**Cost of Goods Manufactured Statement**  
 for the period of \_\_\_\_\_

Element of cost	Details Total	Total	Total Total
Opening stock of raw materials		100	
Add: Raw material purchase	200		
Carriage inward	20		
	<u>220</u>		
Less: Closing stock of raw materials		100	
Material cost		<u>120</u>	
Less: Closing stock of semi-material		180	
<b>Raw material cost</b>		<u>180</u>	
Add: Direct wages		120	
Other direct expenses		<u>100</u>	
<b>Prime cost</b>			400
Add: Factory overhead			100
<b>Production cost</b>			<u>500</u>
Add: Opening Work in process (half finished)			100
Less: Closing Work in process (half finished)			100
<b>Cost of goods manufactured</b>			<u>500</u>



Name of the organisation \_\_\_\_\_  
**Cost of Goods Sold Statement**  
 for the period \_\_\_\_\_

	Debit	Credit
Opening stock of finished goods		₹ 10
add: Cost of goods produced		₹ 90
<b>Available goods</b>		<b>₹ 100</b>
Less: Closing stock of finished goods		₹ 10
<b>Cost of goods sold</b>		<b>₹ 90</b>

Name of the organisation \_\_\_\_\_  
**Comprehensive Income Statement**  
 for the period \_\_\_\_\_

	Debit	Credit
Sales		₹ 100
Less: Returns		₹ 10
<b>Net sales</b>		<b>₹ 90</b>
Less: Cost of goods sold		₹ 90
<b>Gross profit (Net)</b>		<b>₹ 0</b>
Less: Operating costs		
Office and administrative	₹ 10	
Selling and distributing	₹ 10	
<b>Non-operating profit</b>		<b>₹ 0</b>

**Illustration:** From the following information of Sharma Firm, prepare an Cost Sheet on 30<sup>th</sup> June 2017. you are required to prepare a Cost Sheet

	Opening	Closing
<b>Stocks:</b>	Debit	Credit
Raw materials	₹ 400	₹ 600
Work-in-process (WIP) finished	₹ 300	₹ 1,000
Finished goods	₹ 100	₹ 1,100
Partially materials	₹ 100	₹ 0
<b>Expenses:</b>		
Raw materials	₹ 1,000	
Partially materials	₹ 100	₹ 1,000
Carriage inwards	₹ 100	₹ 1,100
Wages	₹ 40,000	₹ 1,000
		₹ 1,100

Factory rent	8,400	Repair to factory building	1,200
Depreciation	4,400	Indirect labour allowance	1,500
Office expenses	2,500	total	1,70,000

**Solution:**

**Monsoon (Final product)**  
**Cost of Goods Manufactured Statement**  
**for the period of half year ended on 30 June 2017**

	Rs.	Paise	Paise
Opening stock of Raw Materials		1,000	
Add Purchase of Raw Materials	42,000		
Change of stock	1,800	4,000	
<b>Cost of Raw Materials Available</b>		48,000	
Less: Closing stock of Raw Materials		17,000	
<b>Raw Material Cost</b>			31,000
Add Wages			44,000
Add Direct expenses		1,000	
Opening stock of packing materials			
Add Purchase of packing goods		5,000	
		4,000	
Less: Closing stock of packing goods		1,000	
			7,000
			42,000
<b>Prime cost</b>			1,18,000
Add Factory overhead			
Production cost		8,000	
Factory depreciation		4,000	
Repair to Factory Building		2,000	
			14,000
<b>Production cost</b>			1,32,000
Add Opening stock of Work in process			12,000
			1,44,000
Less: Closing stock of Work in process			9,000
<b>Cost of goods manufactured</b>			1,35,000

**Simsco: Food product**  
**Cost of Goods Sold Statement**  
 for the period of half year ending on 30 June 2017

	Total
Opening stock of Finished goods	10,000
Add: Cost of goods manufactured	1,11,000
Cost of goods available for sale	1,21,000
Less: Closing stock of Finished goods	10,000
<b>Cost of goods sold</b>	<b>1,11,000</b>

**Simsco: Food product**  
**Comprehensive Income Statement**  
 for the period of half year ending on 30 June 2017

		Total	Total
<b>Total</b>			1,70,000
Less: Cost of goods sold			(1,20,000)
	<b>Gross profit</b>		<b>50,000</b>
Less: Operating cost			
Administrative Overhead			
Office Expenses	1,000		
Salary & Managing director	1,000	4,000	
Selling Overhead			
Advertising expense	1,000		
Commission expense	1,000		
Salary of sales manager & salesman	1,000	19,000	
	<b>Net Operating profit</b>		<b>34,000</b>

**44-487:** Following information is collected from the book of Goods Manufacturing started since 1<sup>st</sup> December 2017

	Total		Total
Raw materials stock (1/12/17)	1,000	Fuel & Power	1,100
Raw materials stock (31/12/17)	9,000	Carriage outward	1,000
work-in process stock (1/12/17)	1,000	Carriage inward	1,000
work-in process stock (31/12/17)	1,000	Interest expense	1,700
Finished good stock (1/12/17)	1,400	Depreciation in machinery	1,000
Finished good stock (31/12/17)	1,000	Direct expenses	1,000
Total of Finished goods	43,000	Other cost	1,000

Raw materials purchased	7,000	Manufacturing supplies	4,000
Direct wages	3,000	Salaries salary & commission	1,200
		Manufacturing office expenses	1,000
		Man-administrative expenses	1,200

Prepare Cost of goods manufactured statement, Cost of goods sold statement and Comparative Income statement.

## Answers

### Multiple choice questions

- Which are not factory overhead?
  - Direct Raw materials + Indirect Raw materials + Direct wages
  - Direct Raw materials + Direct wages + Factory rent & electricity
  - Indirect wages + Depreciation of Furniture + repair to machinery
  - Factory rent + Office rent + Shop rent
- The expenses include in production cost are -
  - Depreciation in machinery
  - Special expenses relating to contract worked
  - Repair to furniture

Which one is correct?

- |           |           |
|-----------|-----------|
| a) A & B  | B & C & D |
| C & D & E | A & B & C |

- Which are the chargeable expenses related to shoe manufacturing?
  - Leather purchase
  - Glue purchase
  - Frame
  - Finishing room

On the basis of following information answer to the question no. 4, 5 & 6.

From cost NaAM Taka, Factory overhead 10,000 Taka, Administrative overhead 5000 Taka, Selling overhead 1000 Taka and profit 20% on total cost.

- Amount of sales?
  - 33,000 Taka
  - 34,000 Taka
  - 35,000 Taka
  - 36,000 Taka
- Amount of profit is sales?
  - 12,000
  - 13,000
  - 12,000
  - 13,000
- Amount of total overhead?
  - 12,000 Taka
  - 13,000 Taka
  - 14,000 Taka
  - 15,000 Taka

**7. Factory overhead costs are:**

- a) Telephone bill
- b) Depreciation cost
- c) Electricity purchase
- Which one is incorrect?

- a) & a
- b) & b

b) & a

d) a, b & c

**8. Which one is a selling overhead cost?**

- a) Advertising expenses
- b) Repair to machines

b) Printing and stationery

d) Electricity & telephone bill

**9. Production cost is:**

- a) Cost of goods available for sale + Opening stock of finished goods
- b) Cost of goods available for sale + Closing stock of finished goods
- c) Cost of goods available for sale - Opening stock of finished goods
- d) Cost of goods available for sale - Closing stock of finished goods

**10. What type of cost element is paper purchased for book publishing organisation?**

- a) Direct Raw material
- b) Indirect Raw material
- c) Factory overhead
- d) Office overhead

**Creative questions**

1. Transactions of Shikha Fruit Center of Shikha during the first week of June 2017 are as follows:

- a) 100 baskets of mangoes were purchased at Rs. 500 each from Bangalore
- b) 10 kg mangoes are in every basket. Total Rs. 1,000 paid truck fare and packing expenses @ 20 paid for each basket.
- c) After loading the truck in Shikha it's found that 10 baskets of mangoes are completely damaged and sent for selling.
- d) Shop rent Rs. 1,000 paid weekly for selling mangoes and Rs. 1,000 paid for Shikha consumables.

a) Determine the quantity (in kg) of Salable mango from the above information

b) Determine the total cost of sold mangoes of Shikha Fruit Center

c) Determine the selling price of per basket and per kg mango assuming total cost Rs. 1,11,000 and 10% profit on cost

2. Asian paper house purchased 10 acres of paper at the rate of rate 14 per acre. They spent for wages Rs. 200 and carriage Rs. 1,000. They spent rate 1,000 for loss of their electric & telephone bill to 1,000 and rate 500 for minimum maintenance for purpose of paper selling. The paper house cost of profit of rate 3 per acre of paper.
- Calculate the cost of per acre of paper of Asian paper house.
  - Determine cost of per acre paper sold of Asian paper house.
  - Determine selling price of per acre of paper considering total cost is 40,000 of total papers of Asian paper house.
3. Shale printers of Canada have got the work order from Union Bank head office for the printing of 1,000 Shale for year of 2017. Following expenses occurred for the purpose of shale work:

Paper purchase	=	Total 75,000
Printing ink purchase	=	Total 25,000
Shale wages	=	Total 15,000
General office purchase	=	Total 5,000
Factory rent	=	Total 10,000
Factory electricity	=	Total 3,000
Office and Administrative expenses	=	Total 15,000
Maintenance expenses	=	Total 1,000
Bill collection expenses outside price	=	7%
Transfer price per Shale	=	Total 15

- Calculate the maintenance cost on Shale printers.
  - Determine cost of production per Shale of Shale printers.
  - Calculate profit or loss per Shale considering total production cost is 1,20,000 of Shale printers.
4. Shale Chambers Ltd starts month 10,00,000 from 15 May to 30 May 2017. Production & selling expenses of Shale are as follows:

Circle purchased is 4,20,000  
 Carriage cost is 11,000  
 Factory and other materials purchased is 42,000  
 Value of unused circle is 50,000  
 Opening work in process is 10,000  
 Opening stock of finished Shale is 1,10,000  
 Closing stock of finished Shale is 1,10,000  
 Total wages of worker is 11,00,000  
 Showroom rent is 20,000

Estimated cost of factory Rs. 52,000  
 Office rent Rs. 10,000  
 Telephone & Electricity bill Rs. 8,000  
 Salaries Commission Rs. 22,000

- Determine the cost of Raw Material Available for above information
- Determine the amount of Cost of Goods Sold of above Company
- Determine the amount of profit or loss considering the cost of goods sold Rs. 12,50,000

3. From 1st January to 31st March, 2017 Manufacturing expenses and selling expenses of Anand & Co. are as follows:

	Rs.
Coal purchased	1,00,000
Freight for coal	1,00,000
Fuel cost	1,50,000
Wages of workers	1,00,000
Rent & electricity for each plant (per month)	10,000
Cost of Running etc.	20,000
Office rent (per month)	11,000
Commission & Telephone	14,000
Advertisement expenses	40,000
Salaries/Sales	50,000
Sales (2,00,000 units)	10,00,000

Opening Stock of Finished Goods (20,000 units) 2,50,000  
 Closing Stock of Finished Goods (50,000 units) 3,40,000

- Determine the quantity of Goods produced from the above information
- Prepare a statement of cost (Quantity) of Anand & Co.
- Determine the profit considering the production cost of Anand & Co. 1,10,000

**Expr:** Opening Finished Stock + Production Value = Sales Value + Closing Finished Stock

## **Twelfth Chapter**

### **Accounting for family and self-employment Enterprise**

To maintain smoothly and easily, it is very important to have a well-designed plan and an applicable accounting system in every sphere of life. Apportionment of appropriate amounts of income and expenditures can make life well balanced and disciplined. We have to spend money in our social and family life associated with income. It is not possible to spend on the basis of the income if the accounts of income and expenditures of the family are not maintained. Even without budgeting of income and expenditures a family can't be managed properly. So every family needs to design appropriate plan for maintaining family accounts properly. Also preparing budget for project is vital in the case of self-employment enterprise for making a person or a family become self-reliant.



**Figure: Self-employment Projects**

**At the end of this chapter, we will be able to :-**

- explain the concept and characteristics of family accounting system
- prepare a family budget,
- prepare the family financial statement,
- prepare budget for self-employment enterprise and also maintain the accounts thereof.



## Concept of family accounting systems:

Family is said to be the foundation of happiness. For the sake of this happiness, each and every person should most living an improved family life. Planning is necessary to lead the family wisely and systematically and application of appropriate accounting is an indispensable part of that plan. A family without a financial plan can not be managed properly. Without maintaining of family income and expenditure account, a family can not live a disciplined life. As a result family happiness may be disturbed. So maintaining of family account and expenditure account is the essential for business organisations. Family is not a business organisation so maintaining system is different since family is a non-profit making continuous organisation. Like other organisations some financial transactions occur in a family. That is, there are some income and expenditure. So maintaining of family budget is essential. There should be pre-defined plan for maintaining the family smoothly and happily within the limit of income.

**Activity:** Why is family accounting system vital for parental life?

## Characteristics of family accounting system

The salient features of family accounting system

### 1. Non-profit making organisation

Family is considered to be a non-profit making organisation. Question of profit and loss does not arise here, as family can incur surplus or deficit through preparation of income, expenditure account and financial statement at the end of a particular period.

### 2. Assumption of separate unit

Each family member of the family considered separately than the head for completing the accounts.

### 3. Responsibility

Family accounts are not to be submitted to anyone, for there is no need of its audit or responsibility.

### 4. Cash transaction

Most transactions of the family are done in cash so it is easy for record keeping.

### 5. Specific head

In most of the cases, family transactions related some specific heads.

**Activity:** Why are the features of family accounting system different from the business/profit making organisation?

## Necessity of family accounting system

For happy and healthy life within the limited account it is essential for maintaining proper accounts. The necessity of family accounts is as follows:

### 1. Proper Planning

Transparency can be ensured if accounts are kept properly, then family life can be enjoyed more easily.

### 2. Family balance

Expenditure within income – if this policy is followed, it may be possible to attain financial solvency and happiness of the family.

### 3. Creation of values

Family accounting can create transparency which can help creating values and ethics between the family members.

### 4. Family Budget

Preparation of family budget and, with the help of a proper management of family can be ensured by controlling all the income and expenditure.

### 5. Saving and consumption tendency

For better life style in future, money should be saved. From the present status if accounts are kept properly, habit of unnecessary expenditure decreases and tendency of saving increases.

### 6. Family discipline

Flexibility of saving of any dispute and misunderstanding among the head and other members of the family as long as accounts are kept systematically and properly.

**Activity:** Identify and explain some other necessity of family accounting with suitable practical situation.

## Family Budget

Budget is a kind of numerical expression of planning. The following some specific purpose, numerical expression of pre-defined plan of income and expenditure of a stipulated time is known as budget. There is no least and last rule for the specific time frame; it may be weekly, monthly or yearly. Family budget means future plan for income and expenditure of the family. Family budget is designed through a pre-plan based on the sources of income and other main demand for expenditure of a family. Budgeting helps to keep the family within a financial framework where over-expenditure is not possible. If family is maintained within such financial framework, i.e. budget, then we can live a better life with limited income.

### Procedure of Family Budget:

It is essential to follow some steps to prepare a family budget. If a budget is prepared following the systematic procedure, implementation of the budget becomes easier. Steps are as follows:-

- 1. Listing of necessary materials:** Prepare the list of materials based on the need and demand of the family members for budgetary year.
- 2. Valuation of materials:** Price and cost of the products and services are to be ascertained for including the total cost of the product for budget preparation.
- 3. Determination of possible income:** Expenditure of family budget depends on income. It is better budget more efficient, determination of income source efficiently is needed to include them in the budget.
- 4. Maintaining balance in budget:** In each family, budget is prepared with a view to achieving optimum benefit within the limited income and thereby save the better future. That is why, we are to pay attention of maintaining equilibrium between income and expenses at the time of budget preparation.
- 5. Realistic of budget:** A family budget should be so such that it is practical and realistic. Budget should be flexible so that in special cases if one or more expenditure becomes more or less, be satisfied by reducing other expenditures.

### Specification of family budgets

Success of budget preparation and implementation mostly depend on socio-economic condition of the family. Income source, source of income, need and desire of the members etc. are to take into consideration strictly while preparing a family budget. Each family will have separate budget. It is not possible to prepare budget of some standard for each family. Over all family budgets can be prepared through equilibrium of income and expenditure. Success or otherwise of expenditure depends upon the structure of the family. For example: expenditure for food 25-30%, clothing 5-10%, housing 15-20%, Education 15-17%, transportation 15-20% approximately.

A pre-formatted Statement of Family Budget is shown below:

Name of the month \_\_\_\_\_

(Number of family members is)

\_\_\_\_\_

Income	
Description of Income	Expected Income (Total) / Actual Income (Total)
Income from salary	40,000
Other income (rent, approach, etc.)	10,000
	50,000

#### Expenditure

Description of Expenditure	Expected Expenditure (Total)	Total Expenditure (Total)	Percentage (%)
<b>Food Items</b>			
Rice	1,000		
Beans	200		
Oil	300		
Salt	50		
Flour	200		
Spices (Mustard, etc.)	100		
Vegetables	300		
Fruit and Sugar	120		
Eggs	200	3,000	
Meat (Chicken, etc.)			
Fish	1,500		
Milk	1,000		
Chicken	1,200		
Eggs	300		
Vegetables	1,000		
Fruit	300		
Onion, Garlic and Ginger	50	6,000	
		16,500	33%
<b>Education</b>			
Stationery and	10,000		
Electricity	1,000		
Gas	400		
Others	500		
		11,900	23%

<b>2c Clothing,</b>				
Purchasing clothes	100			
Shampoo and hairdressing	200			
Washing and laundry	300			
			1,000	2%
<b>4c Education:</b>				
Tuition fees	1,000			
Books, materials and laboratory	500			
Fees for private tuition	1,000			
Transportation	1,000			
			3,500	7%
<b>5c Medical Expenses:</b>				
<b>6c Personal Expenses</b>				
Amusement and recreation			2,000	4%
<b>7c Other Expenses:</b>				
Guest maintenance	1,000			
Cable and library	1,000			
Subscription of newspapers	400			
Wages of the house maid	1,000			
			3,400	7%
<b>8c Savings scheme:</b>				
Provision Fund	1,000			
T.F.F.	1,000			
			20,000	20%
<b>Total Expenditure</b>			<b>50,000</b>	<b>100%</b>

**Activity 10** Study the ledger of Family including their own accounts.

### Preparation of Family Financial Statement.

Transactions relating to income and expenditure of the family are recorded in books of account. The statistical record/summary kept for the financial position of the family. That is why preparation of financial statement is essential for finding actual financial position. Financial statements show the income and expenses of the family for a particular period of time and statement of financial position depicts the financial strength or state of family assets and liabilities. Steps of family financial statement are:

- 1) Income and Payments Account
- 2) Statement of Income and Expenditure
- 3) Statement of Financial Position

**Receipts and Payments Account:** From summary of family cash transactions an account is prepared at the end of the year by classifying and summarizing the transactions as called Receipts and Payments Account. Although it looks like a cash book, of a business system but it is not a cash book. It is the first step of family accounting system. This account is prepared by compiling all types of cash transactions.

All sorts of cash receipts are shown on the debit side and cash payments are shown on the credit side. Capital and revenue incomes of any year, which are received in that year as cash are shown on the debit side, and Capital and revenue expenses of any year, which are paid in that year as cash are shown on the credit side of the Receipts and Payments Account.

**3. Statement of Income and Expenditure:** At the end of the accounting period a statement is prepared to ascertain the nature or deficit of account over expenditure of the family, with the help of various other income and expenditure relating to current year only is known as Statement of Income and Expenditure. In this statement of account a note that expenditure less we call it as surplus or nature of income over expenditure, and if the expenditure is more than income then we call it as deficit or nature of expenditure over income. Nature of income over expenditure determines the family fund which defines accumulated fund.

**4. Statement of Financial Position:** Shortly it represents statement of accumulated liabilities. That is, on a particular date, a statement is prepared showing all assets and liability of the family is known as Statement of Financial Position. Like business system, family also has certain assets and liabilities. For example, assets are building, furniture, ornaments, cash and includes net loan, outstanding expenses, creditors etc. Families do not have any opening capital income, it is not a business organization. But family fund is accumulated here. Family fund is shown as liability in the Statement of Financial Position. Excess of income over expenditure from the statement of income and expenditure is added with family fund and deficit is deducted from family fund.

A pre-formatted Receipts and Payments Account is shown below:

Receipts and Payments Account

Receipts	Total	Payments	Total
Balance b/d	₹	Revenue nature expenses	₹
Revenue nature income	₹	Capital nature expenses	₹
Capital nature income	₹	Balance c/d	₹
	₹		₹

**Features of Receipts and Payments Account:**

1. It is the introduction of a double account.
2. Left side starts with opening cash and bank balances and right side ends with closing cash and bank balances.
3. All receipts are shown on the left side and all payments are shown on the right side.
4. In case of the account, proved to be a matter of convenience i.e. receipts and payments of current period and next year is recorded here as the final.
5. Transactions of current year is outstanding income or expenditure is not recorded.
6. Quantitative figure of the left side is always greater than that of the right side because cash payments has more its greater than cash receipt.
7. Transactions relating to depreciation is not shown in this account.
8. Cash flow can be known from this account.

**Activity:** What kind of role can be played by the Receipts and Payments Account while preparing final account?

**Procedure of preparing Statement of Income and Expenditure from Receipts and Payments Account:**

1. Receipts account receipts are recorded on the receipt side and current period expenditure are recorded on the expenditure side of the Statement of Income and Expenditure.
2. Opening and closing balances of Receipts and Payments Account are not needed to show in the Statement of Income and Expenditure.
3. Capital nature income and expenditures are not shown in the Statement of Income and Expenditure.
4. Only current nature income and expenditures are shown in the Statement of Income and Expenditure.
5. Only current year's income nature income and expenditures are shown in the Statement of Income and Expenditure.
6. Income and expenditures relating to previous or next year will not be shown in the Statement of Income and Expenditure.
7. Transactions relating to purchase/sale of assets will not be shown in the Statement of Income and Expenditure.
8. Income receivables and outstanding expenses of current year will be included in the Statement of Income and Expenditure.
9. Expenditures will be shown in the expenditure side of the Statement of Income and Expenditure.

**Activity:** Identify items of the Receipts and Payments Account which will not be included in the Statement of Income and Expenditure.

## Procedures of preparing Statement of Financial Position from Receipts and Payments Account

The objective of preparing the Statement of Financial Position is to take particulars of assets, liabilities and family fund at a particular point of time, or the end of the year.

Procedures are given below:

1. Family fund is calculated by deducting the opening liabilities from the opening assets of a family.
2. Capital nature income of the Receipts and Payments account are shown on the liability side and Capital nature expenditures are shown on the assets side of the Statement of Financial Position.
3. Closing cash and bank balances of the Receipts and Payments Account are shown on the assets side of the Statement of Financial Position.
4. Depreciation is to be deducted from respective assets are shown on the assets side of the Statement of Financial Position.
5. All personal expenses are to be shown on the liability side and all personal expenses are to be shown on the assets side of the Statement of Financial Position.
6. Excess of income over expenditures of the Statement of Income and Expenditure are to be added with Family fund and deficits are to be deducted from the Family fund on the liability side of the Statement of Financial Position.
7. Opening cash and bank balances of the Receipts and Payments Account will not be considered as one of the particulars of the Statement of Financial Position. These balances will be shown as one of the opening the Family fund.

**Summary:** Identify the items of the Receipts and Payments Account which will be included in calculating the Family fund.

### Illustration-41

Mrs. Robert who works in Govt. organisation maintains family with her salary & the income that comes from her husband's business. Information of her family's income and expenditures mentioned below:

Monthly salary & 10,000; House rent paid & 12,000 per month; Food Materials used expenses for whole year & 1,20,000; Medicine & Doctors fees & 12,000; Profit from business & 4,00,000; Clothes purchased & 32,000; Profit from business & 4,50,000; Clothes purchased & 31,000; Education expenses & 44,000; Clothing table purchased & 61,000; Income Tax paid & 18,000; Computer & Printer purchased & 76,000; Gas Water & Electricity bill paid & 14,000; Deposit to (SBI) & 40,000



## Order Information

On 1st January 2017 her family condition was: Cash in hand £. 10,000 & Payments £. 14,000

At the end of year Cash & Water bills are £. 24,000.

Required: From the above information you are required to prepare Receipts & Payment Account, Statement of Income & Expenditure and Statement of Financial Position.

## Solutions:

**Mrs Roberts's Family's**  
**Receipts & Payments Account**  
**for the year ended 31st December 2017**

Debit		Credit	
Receipts	Total	Payments	Total
Cash Paid (31-12-2017)	22,000	House Rent (20 000 × 12)	2,40,000
Salaries (15 000 × 12)	4,20,000	Spent for Food Products	1,20,000
Profit from business	4,40,000	Welfare & Doctors fees	25,000
		Clothes purchased	30,000
		Education expenses	95,000
		Living Bills purchased	40,000
		Income Tax paid	16,000
		Carpet & Printer purchased	75,000
		Gas, Water & Electricity bill	50,000
		Deposited to BPS	60,000
		Cash in hand (31-12-2017)	2,40,000
	<b>5,02,000</b>		<b>5,02,000</b>

**Mrs. Rutina's Family's**  
**Statement of Income & Expenditure**  
**for the year ended 31st December 2017**

Receipts	Total	Total	Total
<b>Income:</b>			
Salary Received		4,34,000	
Profit from business		4,34,000	
			8,68,000
<b>Less: Expenditures:</b>			
House Rent		1,14,000	
Food/Produce		1,29,000	
Medicine & Doctors fee		25,000	
Clothes purchases		32,000	
Educational expenses		75,000	
Income Tax paid		14,000	
Computer & printer purchased	58,500		
Gas, Water & Electricity bill	24,000		
		61,000	
			(3,44,500)
<b>Surplus of Income</b>			<b>5,23,500</b>

**Mrs Babson's Family's  
Statement of Financial Position  
as on 31st December, 2017**

	<b>Total</b>	<b>Total</b>	<b>Total</b>
<b>Assets</b>			
Cash in hand		2,01,500	
Furniture	1,68,000		
Add Closing Table purchase	41,000		
		2,08,000	
Computer & Printer		74,000	
Expenses 2017		56,000	
<b>Total Assets</b>			<b>5,47,500</b>
<b>Liabilities</b>			
Gas, Water & Electricity bill due		24,000	
Family Fund (Note 1)	1,98,000		
Add Employer's Income	2,75,500		
		3,23,500	
<b>Total Liabilities &amp; Closing Family Fund</b>			<b>5,47,500</b>

**Note: Calculation of Family Fund**

$$\text{Cash} + \text{Furniture} = (22,000 + 1,76,000) = 1,98,000$$

**Illustration 2**

Assets and Liabilities of Jones (as on 1 January 2017 are: House 20,00,000, Furniture 20,000, Car/Garage 15,000, House Building Loan 10,00,000. The Receipts and Payments account of this year are as follows:

## Example self-payment Account:

Receipts	Total	Payments	Total
Estimated Total Salary	120,000	Field practice	40,000
Business bank overdraft	20,000	Bill for grocery shop	1,200
Sale of old newspaper	1,000	Motorcycle fuel	1,200
		Computer hardware	10,000
		Gas or house building loan	12,000
		Telephone payments	10,000
		Religious fees	20,000
		Water, Gas & Electricity	3,000
		Entertainment	7,000
		Insurance	2,000
		Newspaper bill	4,000
		Commuters and other	6,000
		Post office money (bank deposit)	48,000
		Total in bank (30/12/2007)	120,000
	120,000		120,000

**Prepare Income Statement for the year ended 31 December 2017 and Balance Sheet as on 31 December 2017**

**Solution :-**

**Mr. Gaurav Chaud**  
**Income Statement**

for the year ended 31 December 2017

Particulars	Total	Total
<b>Receipts</b>		
Salaries	1,20,000	
Business bank overdraft	20,000	
Sale of old house paper	1,000	
<b>Total Income</b>		1,21,000
<b>Expenditure</b>		
Post office money	48,000	
Bill for grocery shop	1,200	
Motorcycle fuel	1,200	
Amount on house building loan	12,000	
Gas, Water and Electricity	3,000	
Entertainment	7,000	
Insurance	2,000	
Newspaper bill	4,000	
Commuters and other	6,000	
<b>Total expense</b>		79,400
<b>Surplus/Deficit of Income over Expenditure</b>		41,600

**Mr. James Cook**  
**Statement of Financial Position**  
 as at 31 December 2017

	Debit	Credit	Total
<b>Assets</b>			
Notes		20,000,000	
Prements		20,000	
Capital assets		11,000	
Liabilities		20,000	
Debtors		11,000	
Refugees		40,000	
Pre- & Post-arriving bank deposits		44,000	
Current bank		1,200	
<b>Total Assets</b>			<b>11,011,200</b>
<b>Liabilities and Equity/Fund</b>			
House building loan		11,000,000	
Family Fund	5,11,000		
Mr. Cooper	1,11,200	7,11,200	
<b>Total Liabilities and Equity/Fund</b>			<b>11,011,200</b>

Now, Calculation of Family Fund:

Family Fund = Opening Assets – Opening Liabilities

= (Notes + Prements + Capital assets + House building loan

= (20,000,000 + 20,000 + 11,000) – 11,000,000 = Tk. 9,01,000

**Activity**

Mr. James is a doctor. He runs a group home, provides primary health care services. The Receipts and Payments for the year ended 31 December 2017 are as follows:

**Receipts and Payment Account**  
For the year ended 31 December 2017

Receipts	Total	Payments	Total
Cash-in-hand (B/-) 01/01/17	10,000	Investment in Shares	1,00,000
Cash at Bank (B/-) 01/01/17	50,000	Food purchase	40,000
Income from Salary	3,00,000	Domestic help	60,000
Income from spouse's practice	1,50,000	Car repair & Fuel exp.	45,000
Income from house rent	90,000	Educational expenses	30,000
		Insurance Tax	11,000
		Computer purchase	40,000
		Interest on Loan	30,000
		Gas, Water & Electricity exp.	25,000
		Income purchase :-	25,000
		Cash-in-hand (B/-) 31/12/17	30,000
	4,50,000		4,50,000

Assets and Liabilities are as follows as 31/12/2017

Partnership - Rs.1,15,000, House Rs.1,00,000, Car Rs.40,000, Gas Rs.1,50,000 & Loan Rs.3,00,000

Other information as on 31/12/17

- Salary Rs.3,00,000- due for current year
- House - Rs.3,00,000 not yet realized.
- Driver's salary due Rs.1,50,000

**Required:**

- Calculate Family Budget of Mr. Arun's family
- Prepare Income and expenditure statement of Mr. Arun's family for the year ended 31 December 2017
- Prepare Statement of Financial position for Arun's on that date

## Exercise

### Multiple choice questions

1. In the light of Accounting, family is seen:

- a) Profitable organisation
- b) Non-profitable organisation
- c) Ongoing profitable organisation
- d) Ongoing non-profitable organisation

2. Minimum family transaction occurred in:

- a) Cash
- b) Cheque
- c) Credit
- d) Free of cost

3. Preparation of family budget involves:

- a) Basis of expenditure income
- b) Basis of actual income
- c) Basis of expected income and expenditure
- d) Basis of actual income and expenditure

4. To record a Receipt and payment account:

- i. Capitalisation account
- ii. Revenue nature account
- iii. Revenue nature expenditure

Which one is correct?

- a) i & ii
- b) i & iii
- c) ii & iii
- d) i, ii & iii

5. To record a family Income-Expenditure statement:

- a) Revenue nature income of current year
- b) Revenue nature expenditure of current and last year
- c) Revenue nature expenditure of current and next year
- d) Revenue nature expenditure of last, current and next year

6. How many steps have to be prepared of Family Financial Statement?

- a) 03 steps
- b) 4 steps
- c) 04 steps
- d) 05 steps

## 7. Which one is family resource source expenditure?

- (i) Construction of building
- (ii) Education expense
- (iii) Maintenance of family

Which one is correct?

- (a) i & ii      (b) i & iii      (c) ii & iii      (d) i, ii & iii

## 8. Which one is the step for preparation of family budget?

- (a) Listing of necessary goods      (b) Determination of possible income
- (c) Determination of value of goods in service      (d) Data collection for demand and supply of goods-in services

## 9. Steps for family financial statement-

- i. Cash account
- ii. Receipts-payment account
- iii. Income-expenditure statement

Which one is correct?

- (a) i & ii      (b) i & iii      (c) ii & iii      (d) i, ii & iii

**Creative questions**

1. Mr. Akash Kishor has started his private enterprise. His monthly salary is ₹ 12,000. In addition he has got ₹ 2,000 from house rent monthly. By giving part time lecture in a college, he 17 January 2017 has cash on hand ₹ 2,00,000 and 20% of ₹ 1,00,000. Following are the transactions of his family of whom your Brother-in-Law is also a member.
  - (i) Purchase of land ₹ 20,000, House rent ₹ 60,000. Daily shopping expenses ₹ 10,000. Purchase purchase ₹ 15,000. Grocery and stationary bill ₹ 2,000. Carriage charges ₹ 40,000 and deposit in EPF ₹ 24,000.
  - (a) Calculate family fund of Mr. Akash Kishor.
  - (b) Calculate closing family fund as head of Mr. Akash Kishor.
  - (c) From Brother-in-law's information calculate family surplus or deficit.
2. Following are the family information of Dr. Mahesh as on 1 January 2017.
  - Building ₹ 8,00,000, Furniture ₹ 40,000, Investment ₹ 10,00,000, Gold ₹ 10,000, Cash on hand ₹ 5,000 and bank loan ₹ 1,000.



**Family Receipt and Payment account of Dr. Mahesh**  
For the year ended 31 December 2017

Receipt	Debit	Payment	Credit
Bank interest (31.12)	1,000	Purchase of food materials	40,000
Salary	3,00,000	Grocery shopping	1,20,000
Interim dividend	1,000	Telephone purchase	25,000
Interest from period rent	1,20,000	House repair	1,500
		Education expenses	24,000
		Gas, water and electricity	21,000
		Bank fixed deposit	25,000
		Balance c/d (31.12)	7,000
	<b>4,22,000</b>		<b>4,22,000</b>

**Other Information's:**

- Gas, Water and Electricity are paid due for Rs. 1,000
- Interest on investment was not received for Rs.1,000

(i) Calculate family head-of Dr. Mahesh

(ii) Prepare the Family Income-Expenditure statement for the year ended at Dec. 2017

(i) Prepare the Statement of Financial position on this date.

5. Mr. Sharma is serving as a private representative. His monthly salary is Rs.6000 and gets bonus is 20,000 twice in a year. On 1st January 2017 his family's condition was as follows: Land is 10,000 House is Rs.20,000, Expenses is Rs.200, Loan from colleagues is 10,000

Following are the transactions of his family of whole year

Food material purchased is Rs.6000, Loan paid to colleagues is Rs.2000, Mahesh is Doctor fees is 10,000, Repair expenses of house is 11,000, Mahesh has purchased Rs.1,000, Electricity is Telephone expenses is Rs.100, Clothes purchased is Rs.2000, Gold ornaments were Rs.40,000, Refrigerator purchased is Rs.20,000, Television expenses is Rs.10,000, Deposit in C.D.D is 20,000

Bonus this, Electricity bill is Rs.10,000

(i) Calculate the opening family fund from the above information.

(ii) Calculate the closing cash fund of Sharma's family as on 31 December 2017

(i) Prepare a statement of Family Income and Expenditure of Sharma's Family

5. On 1st January 2017 The financial position of Maureen Ltd's business is defined as follows: Creditors Rs. 25,000; Bank Rs. 1,00,000; Assets Rs. 25,000; Furniture Rs. 50,000 and C/Ps Rs. 10,000. Receipts and payments account for the year ended is as follows:

**Receipts and Payments Account**  
for the year ended 31st December 2017

Debit		Credit	
Receipts	Rs.	Payments	Rs.
Balance B/D	25,000	Fuel purchased	77,000
Salary	1,00,000	Repair of House	1,000
Sold old tools	1,000	Freight purchased	20,000
Sold agricultural crops	10,000	Electricity bill	4,000
Profit from Pharmacy	25,000	Treatment expenses	1,500
Dividend		Deposited C/Ps	40,000
		Cyber purchased	12,000
		Education expenses	14,500
		Clothes purchased	14,000
		Interest on loan	1,000
		Balance C/D	90,000
	<b>1,50,000</b>		<b>1,50,000</b>

Other information:

(i) Rent of Fuel Warehouse Rs. 1,000

(ii) The motor electricity bill due

at Determine the amount of Capital Expenses of Maureen current year

Maureen's Statement of Assets, Income and Expenditure from the above information

(i) Prepare a Statement of Financial position as on 31st December 2017

considering the Fixed Asset Rs. 1,00,000.

## Answer Sheet

### Chapter Eight

Choose question of Exercise 1: 1. To Journal of cash receipt \$1,500 a) Closing cash is least \$1,40,000 2. a) Total of off-ice expenses \$15,000 b) Closing cash is least \$1,35,000 & Bank balance \$1,15,000 c) Closing cash is least \$1,40,000 Bank balance \$1,25,000, Dividend offered \$1,100 d) Dividend received \$1,500 3. a) \$1,35,000 b) Total of cash receipts journal, Cash \$1,10,000, Dividend offered \$1,700 Sales \$1,10,000, Dividend \$1,700 c) other account \$1,500 d) Total of cash payments journal, Purchase \$1,5,000, Dividend \$1,50,000 Other account \$1,500 Dividend received \$1,500 & Cash \$1,500 4. a) Closing cash is least \$1,40,000 c) Closing cash is least \$1,35,000 a. Total balance \$1,100 3. a) Total amount of sales only \$1,10,000 b) Closing cash is least \$1,35,000 & Bank balance \$1,25,000 c) Closing cash is least \$1,40,000, Bank account \$1,500 Dividend offered \$1,500 & Dividend received \$1,500 4. a) Amount of cash receipt \$1,500 b) Total of cash receipts journal, Cash \$1,10,000, Dividend offered \$1,700, Sales \$1,10,000, Dividend \$1,700 & other account \$1,500 c) Total of cash payments journal, Purchase \$1,5,000 Dividend \$1,500 Other account \$1,500 Dividend received \$1,500 & Cash \$1,500 5. a) Closing cash is least \$1,35,000, Bank account \$1,500, Dividend offered \$1,500 Dividend received \$1,500 b) Dividend received \$1,500 c) Total of cash payments journal, Purchase \$1,5,000 Dividend \$1,500 Other account \$1,500 Dividend received \$1,500 & Cash \$1,500

### Chapter Nine

Choose question of Exercise 1: a) \$1,35,000 b) Total of Trial Balance \$1,15,000 c) Revenue account \$5,000 & Revenue expense \$2,000 2. a) \$1,40,000 b) Total of Trial Balance \$1,15,000 & Revenue Account (credit) \$1,50,000 c) Capital expenditure \$1,50,000 & Revenue expense \$1,50,000 3. a) \$1,40,000 b) Revenue expense \$1,10,000 c) Total of Trial Balance \$1,25,000 4. a) \$1,35,000 b) Total of Trial Balance \$1,15,000 c) Revenue account \$1,10,000 & Revenue expense \$1,10,000 d) \$1,35,000 e) Assets \$1,35,000 & Liabilities \$1,35,000 a) Total of Trial Balance \$1,40,000 4. a) Adjusted journal \$1,10,000 b) Total of Trial Balance \$1,15,000 c) Closing journal's equity \$1,25,000

### Chapter Six

#### Creating general ledger entries

1. a) Current liabilities \$ 1 000 000 b) Shareholders' own expenditure \$ 2 25 000
- c) Total Assets \$ 4 15 000 2. a) Net sales \$ 4 250 000 b) Cost of goods sold \$ 1 00 000 c) Net profit \$ 38 000 3. a) Cost of goods sold \$ 90 000 b) Opening Inventory \$ 2 000 \$ Net profit \$ 4 000 c) Total of statement of financial position \$ 4 25 000 4. a) Open profit \$ 25 000 b) Net profit \$ 40 000 c) Total of statement of financial position \$ 4 25 000 5. a) Closing stock valued \$ 25 000 b) Gross profit \$ 1 20 000 c) Operating profit \$ 87 000 d) Net profit \$ 45 000 e) Cost of goods sold \$ 2 15 000 f) Operating loss \$ 25 000 g. Net loss \$ 25 000 c) Total of statement of financial position \$ 4 05 000 7. a) Net current assets \$ 1 40 000 b) Net profit \$ 1 40 000 c) Operating profit \$ 27 000 d. Net profit \$ 75 000 8. a) Current liabilities \$ 200 000 b) Closing reserves equity \$ 200 000 c) Total Assets \$ 1 20 000 9. a) In the year 2014 \$ 75 000 b 2015 \$ 75 000 b) Net profit margin 14.7% c profit on capital employed ratio 22.8% c) Current ratio 1.24 1.3 liquidity ratio 1.10 c) L. quality ratio 22.1 b) Net profit \$ 22 000 c) Total of statement of financial position \$ 1 62 000 11. a) Net value of fixed assets \$ 5 80 000 b) Net loss \$ 11 000 c) Closing reserves equity \$ 1 67 000 12. a) Net debt \$ 27 000 b) Gross profit \$ 87 000 c) Operating profit \$ 65 125 d Net profit \$ 47 125

### Chapter Seven

#### Creating general ledger entries

1. a) Machine purchase 1 500 kg. b) Total cost Net profit \$ 1 00 000 c) Selling price of each basket \$ 24.00 d) Selling price of paper \$ 24.00 2. a) Cost price of each ream of paper \$ 2.00 b) Total cost of each quare paper \$ 10.50 c) Selling price of each quare paper \$ 12. 3. a) Conversion cost \$ 11 000 b) Production cost of each bag \$ 12.00 c) Profit of each bag \$ 1.00 4. a) Cost of each new assembly \$ 1 00 000 b) Cost of each bag \$ 1 75 000 c) Net profit \$ 20 75 000 5. a) Production cost \$ 14 000 per. b) Production cost \$ 5 00 000 c) Net profit \$ 8 00 000

### Chapter Twelve

#### Convergent and Divergent

1. a) Family fund \$ 1,200,000 b) Closing cash in hand \$ 1,07,120 c) Excess of income over expenses \$ 14,000  
2. a) Family fund \$ 1,171,000 b) Revenue Surplus \$ 1,11,000  
3. a) Total of statement of financial position \$ 14,36,000  
4. a) Family fund \$ 1,14,000 b) Closing cash in hand \$ 1,70,000 c) Revenue Surplus \$ 1,40,000  
5. a) Capital expenditure \$ 40,000 b) Revenue Surplus \$ 1,20,400  
c) Total of statement of financial position \$ 1,74,000

**2018**

**Academic Year**

**9-10 Accounting**

শিক্ষা ও জ্ঞান অর্জনের ক্ষেত্রেই জীবনে সফলতা অর্জন করার মতো  
— মূল্যবোধ অধ্যয়ন — বেশ মূল্যবোধ

## আন্তর্বিদ্যালয় সাক্ষাৎর চাবিকাঠি

যদিও এ প্রকল্পের মাধ্যমে শিক্ষার্থীদেরকে এ প্রতিষ্ঠানের জন্য প্রদত্ত অর্থের একটি অংশই  
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